晋商银行
Jinshang Bank

晉商銀行股份有限公司
JINSHANG BANK CO., LTD.

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

Stock Code: 2558

GLOBAL OFFERING

晉商銀行

Joint Sponsors

建银国际 CCB International
CICC 中金公司
招銀国际 CMB INTERNATIONAL

Joint Global Coordinators

建银国际 CCB International
CICC 中金公司
招銀国际 CMB INTERNATIONAL
AMTD 尚乘

Joint Bookrunners and Joint Lead Managers

建银国际 CCB International
CICC 中金公司
招銀国际 CMB INTERNATIONAL
AMTD 尚乘
山證國際 SHANXI SECURITIES INTERNATIONAL
浦銀國際 SPDB INTERNATIONAL
農銀國際 ABC INTERNATIONAL
ICBC 工银国际
海通國際 HAITONG

Financial Advisor

山證國際 SHANXI SECURITIES INTERNATIONAL

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

晋商银行
Jinshang Bank

JINSHANG BANK CO., LTD.*
晉商銀行股份有限公司*

(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	**:**	**860,000,000 H Shares (subject to the Over-allotment Option)**
Number of International Offer Shares	**:**	**774,000,000 H Shares (subject to adjustment and the Over-allotment Option)**
Number of Hong Kong Offer Shares	**:**	**86,000,000 H Shares (subject to adjustment)**
Maximum Offer Price	**:**	**HK$3.98 per H Share (payable in full on application in Hong Kong dollars, subject to refund on final pricing), 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	**:**	**2558**

Joint Sponsors

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Financial Advisor

山證國際 SHANXI SECURITIES INTERNATIONAL

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 (Cap. 32). 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 11, 2019 and, in any event, not later than Wednesday, July 17, 2019. The Offer Price will be no more than HK$3.98 per Offer Share and is currently expected to be no less than HK$3.80 per Offer Share unless otherwise announced. If, for whatever reason, the Offer Price is not agreed by Wednesday, July 17, 2019, 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$3.80 to HK$3.98 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.jshbank.com**. 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 Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. See "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Grounds for Termination".

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 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 subject to the supervision of the Hong Kong Monetary Authority, and not authorized to carry on banking/deposit-taking business in Hong Kong.*

June 28, 2019

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 11, 2019
Application lists open[3]	11:45 a.m. on Thursday, July 11, 2019
Latest time for lodging **WHITE** and **YELLOW** Application Forms	12:00 noon on Thursday, July 11, 2019
Latest time for completing payment of **White Form eIPO** applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Thursday, July 11, 2019
Latest time for giving **electronic application instructions** to HKSCC[4]	12:00 noon on Thursday, July 11, 2019
Application lists close[3]	12:00 noon on Thursday, July 11, 2019
Expected Price Determination Date[5]	Thursday, July 11, 2019

Announcement of:

(1) 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 to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on	Wednesday, July 17, 2019
(2) the results of allocations in the Hong Kong Public Offering (with successful applicants' identification document or business registration numbers, where appropriate) to be available through a variety of channels as described in "How to Apply for Hong Kong Offer Shares – 11. Publication of Results" from	Wednesday, July 17, 2019
(3) the Hong Kong Public Offering containing (1) and (2) above to be published on the website of the Hong Kong Stock Exchange at **www.hkexnews.hk** and our Bank's website at **http://www.jshbank.com/**[6] from	Wednesday, July 17, 2019

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 17, 2019
Dispatch of H Share certificates or deposit of the H Share certificates into CCASS in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before[(7)(9)]	Wednesday, July 17, 2019
Dispatch of refund checks and White Form e-Refund payment instructions in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before[(8)(9)]	Wednesday, July 17, 2019
Dealings in the H Shares on the Hong Kong Stock Exchange expected to commence at 9:00 a.m. on	Thursday, July 18, 2019

The application for the Hong Kong Offer Shares will commence on Friday, June 28, 2019 through Thursday, July 11, 2019, being longer than normal market practice of four days. The application monies (including the brokerages, SFC transaction levies and Hong Kong Stock Exchange trading fees) will be held by the receiving bank on behalf of the Bank and the refund monies, if any, will be returned to the applicants without interest on Wednesday, July 17, 2019. Investors should be aware that the dealings in the H Shares on the Hong Kong Stock Exchange are expected to commence on Thursday, July 18, 2019.

Notes:

(1) All times refer to Hong Kong local time, except as otherwise stated.

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

(3) If there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, July 11, 2019, the application lists will not open or close on that day. Please see "How to Apply for Hong Kong Offer Shares – 10. Effect of Bad Weather on the Opening of the Application Lists".

(4) Applicants who apply for Hong Kong Offer Shares by giving electronic application instructions to HKSCC via CCASS should see "How to Apply for Hong Kong Offer Shares – 6. Applying by Giving Electronic application instructions to HKSCC via CCASS".

(5) The Price Determination Date is expected to be on or around Thursday, July 11, 2019 and, in any event, on or before Wednesday, July 17, 2019. If, for any reason, our Bank and the Joint Representatives (on behalf of the Underwriters) are unable to reach agreement on the Offer Price on or before Wednesday, July 17, 2019, the Global Offering will not proceed and 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 at 8:00 a.m. on Thursday, July 18, 2019 provided that (1) the Global Offering has become unconditional in all respects and (2) the Underwriting Agreements have not been terminated in accordance with their respective terms. Investors who trade H Shares 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) e-Refund payment instructions/refund checks 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. Part of the applicant's Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund check, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant's Hong Kong identity card number or passport number before encashment of the refund check. Inaccurate completion of an applicant's Hong Kong identity card number or passport number invalidates or delays encashment of the refund check.

(9) Applicants who have applied on **WHITE** Application Forms or through the **White Form eIPO** service for 1,000,000 Hong Kong Offer Shares or more and have provided all information required by the Application Form may collect any refund checks and/or H Share certificates (where applicable) in person from our Bank's H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, July 17, 2019 or such other date as notified by our Bank in the newspapers as the date of dispatch/collection of share certificates/e-Refund payment instructions/refund checks. Applicants being individuals who are eligible for personal collection must not authorize any other person to collect on their behalf. Applicants being corporations which are eligible for personal collection must attend by their authorized representatives bearing a letter of authorization from their corporation stamped with the corporation's chop. Both individuals and authorized representatives of corporations (if applicable) must produce, at the time of collection, evidence of identity acceptable to our H Share Registrar at the time of collection. Applicants who have applied on **YELLOW** Application Forms for 1,000,000 Hong Kong Offer Shares or more may collect their refund checks, if any, in person but may not elect to collect their H Share certificates as such H Share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to their or the designated CCASS Participant's stock account as stated in their Application Forms. The procedures for collection of refund checks for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants. Applicants who have applied for Hong Kong Offer Shares by giving electronic application instructions to HKSCC should see "How to Apply for Hong Kong Offer Shares – 14. Dispatch/Collection of Share Certificates and Refund Monies – Personal Collection – (iv) If you apply via Electronic application instructions to HKSCC".

Applicants who have applied through the **White Form eIPO** service and paid their applications monies through single bank accounts may have refund monies (if any) dispatched to the application bank account in the form of e-Refund payment instructions. Applicants who have applied through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions in the form of refund checks by ordinary post at their own risk. For applicants who have applied for less than 1,000,000 Hong Kong Offer Shares, any uncollected H Share certificates and/or refund checks will be dispatched by ordinary post, at the applicants' own risk, to the addresses specified in the relevant applications on or before Wednesday, July 17, 2019.

Further information is set out in "How to Apply for Hong Kong Offer Shares – 13. Refund of Application Monies" and "How to Apply for Hong Kong Offer Shares – 14. Dispatch/Collection of Share Certificates and Refund Monies".

The above expected timetable is a summary only. You should see "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" for details of the structure of the Global Offering, including the conditions of the Global Offering, and the procedures for application for the Hong Kong Offer Shares.

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 Representatives, 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 entitled "Risk Factors" of this prospectus. You should read that section carefully before you decide to invest in the H Shares.

OVERVIEW

We are the only provincial city commercial bank in Shanxi Province. In 2018, we were ranked 440th among the "Top 1000 World Banks" in terms of tier-one capital as of December 31, 2017 by *The Banker*, moving up 136 places compared with our ranking in 2017. Our total assets increased from RMB173,385.9 million as of December 31, 2016 to RMB206,869.8 million as of December 31, 2017, and further to RMB227,247.8 million as of December 31, 2018. We ranked first among all city commercial banks in Shanxi Province in terms of total assets, total deposits from customers and total loans to customers as of December 31, 2017.

We have established an extensive business network covering Shanxi Province that fully penetrated into regions with strong economic growth. As of December 31, 2018, we had a business network comprising 160 outlets that covered all 11 prefecture-level cities in Shanxi Province. Capitalizing on our deep knowledge on the local economy and leveraging policies promulgated by PRC Government in recent years promoting industry upgrade and economic transformation in Shanxi Province, we strategically expanded into industries that enjoy strong business prospect. In particular, we invested in capturing opportunities arising from industries and businesses encouraged by favorable policies, including the consolidation and upgrade of coal-related industries, the integration of coal and power industries as well as the new material industries, and the development of advanced manufacturing and tourism industries that focus on products and services with unique features and advantages.

Our net profit increased from RMB1,031.9 million for the year ended December 31, 2016 to RMB1,230.5 million for the year ended December 31, 2017, representing an annual growth rate of 19.2%. Our net profit amounted to RMB1,313.6 million for the year ended December 31, 2018. As of December 31, 2018, our deposits from customers and net loans and advances to customers amounted to RMB144,896.8 million and RMB98,118.1 million, respectively.

OUR COMPETITIVE STRENGTHS

Our competitive strengths include:

- We are the only provincial city commercial bank in Shanxi Province and are well-positioned to benefit from the strong growth of the local economy driven by Shanxi Province's economic transformation and favorable national and regional policies.
- We have established a strongly competitive corporate banking business by deepening cooperation with corporate and institutional customers and actively seizing market opportunities brought up by favorable policies.
- We continually innovate retail banking products and services based on thorough analysis of customers' needs and have established our distinctive competitiveness.
- We recognize the strategic value of internet technology for promoting our financial market business and invest in the continual utilization of advanced technology to drive innovation in our financial products and services.
- We have established a sound risk management mechanism and have taken prudent risk management measures to ensure asset quality.
- Our market leading position can be strongly attributed to our corporate culture that represents the cultural heritage of "Jin Shang (晉商)", our management team with rich industry experience, a sound and diversified shareholders' structure and a well-established talent cultivation system.

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

OUR DEVELOPMENT STRATEGIES

Our strategic goal is to harness our core competitiveness through supporting and serving Shanxi Province's economic development, and to become a public company with strong competitiveness in the local market that has a sound corporate structure, featured products and services, a rigorous risk management system and comprehensive market coverage. To achieve this goal, we plan to implement the following specific business development strategies:

- Continuously enhance our existing competitive edges by capturing opportunities brought up by the economic transformation of Shanxi Province and solidifying our advantages in the local market.
- Optimize our business and revenue structure by further improving our business network and promoting the transformation of our retail banking business with a focus on the expansion of wealth management and private banking business operations.
- Continue to develop our featured financial services for micro and small enterprises by leveraging the advantages of our corporate banking businesses, and continue to enhance our cooperation with local enterprises and governments.
- Further enhance our risk management and internal control capability to improve asset quality.
- Optimize our human resources system to attract and cultivate quality talents.
- Continually improve technology innovation and utilization and invest in the development of internet finance channels.

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 was prepared in accordance with IFRS, and the sections headed "Assets and Liabilities" and "Financial Information". The consolidated statements of profit or loss and other comprehensive income for the years ended December 31, 2016, 2017 and 2018, as well as the consolidated statements of financial position as of December 31, 2016, 2017 and 2018 set out below have been derived from the Accountants' Report set forth in Appendix I.

We have adopted International Financial Reporting Standard 9 "Financial Instruments" ("**IFRS 9**") since January 1, 2018, resulting in changes in accounting policies. Compared with International Accounting Standard 39 "Financial Instruments" ("**IAS 39**") that we adopted prior to January 1, 2018, the major changes adopted by IFRS 9 are the classification and measurement and the impairment model for financial assets. The classification of financial assets under IFRS 9 requires us to consider the business model and the contractual cash flow characteristics of relevant financial assets to determine classification and subsequent measurement. Further, for financial assets that will be classified as "amortized cost" or "fair value through other comprehensive income" 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. Except for the changes in relation to impairment and classification and measurement of financial assets, 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 illustrate the difference between IAS 39 and IFRS 9 and the impact towards our financial results for the year ended December 31, 2018, we have prepared financial information for the year ended December 31, 2018 according to IAS 39 and IFRS 9, respectively. The adoption of IFRS 9 for the year ended December 31, 2018 does not result in any 5% or more increase/decrease in the amounts reported in the financial statements if compared to the adoption of IAS 39, except for (i) a 6.5% decrease in the interest income for the year ended December 31, 2018 if compared to the result for the same year should we applying IAS 39, which leads to a 15.4% decrease in the net interest income for the same year as compared to the result when applying IAS 39, and together with a 335.7% increase in the net trading gains and a 180.9% increase in the net gains from investment securities further cause a 3.8% increase in the operating income for the same year as compared to the result when applying IAS 39, mainly due to reclassification of financial investments; (ii) a 13.6% increase in the impairment losses on assets for the year ended December 31, 2018 if compared to the result for the same year should we apply IAS 39, primarily attributable to the application of the expected credit loss model under IFRS 9; (iii) a 13.5% increase in the deferred tax assets from December 31, 2017 to January 1, 2018, which was also attributable to the application of the expected credit loss model and reclassification of financial investments under IFRS 9; and (iv) a 17.4% decrease in the fair value reserve from December 31, 2017 to January 1, 2018, as well as a 68.0% decrease in the retained earnings and a 31.9% decrease in the non-controlling interests from December 31, 2017 to January 1, 2018. For details, please see "Financial Information – Critical Accounting Judgments and Key Sources of Estimation Uncertainty – Impact of New Accounting Policies". Please also see Note 2(1)(a) of the Accountants' Report in Appendix I.

In addition, we have adopted International Financial Reporting Standard 15 "Revenue from Contracts with Customers" ("**IFRS 15**") since January 1, 2018, resulting in changes in accounting policies. Compared with International Accounting Standard 18 "Revenue" ("**IAS 18**") that we adopted prior to January 1, 2018, the adoption of IFRS 15 for the year ended December 31, 2018 does not result in any significant impact on our financial position and performance. For details, please see "Financial Information – Critical Accounting Judgments and Key Sources of Estimation Uncertainty – Impact of New Accounting Policies". Please also see Note 2(1)(a) of the Accountants' Report in Appendix I.

Our results of operations during the years ended December 31, 2016 and 2017 may not be indicative of our results of operations for the reporting periods beginning on or after January 1, 2018. Please also see "Risk Factors – Changes in accounting standards or policies may materially affect our financial condition and results of operations".

Selected Data from Consolidated Statements of Financial Position

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

	As of December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Assets						
Cash and deposits with the central bank	23,318.2	13.4%	23,665.1	11.4%	23,589.7	10.4%
Deposits with banks and other financial institutions	843.9	0.5%	858.4	0.4%	792.3	0.3%
Placements with banks and other financial institutions	–	–	500.0	0.2%	500.1	0.2%
Financial assets held under resale agreements	5,730.4	3.3%	11,305.3	5.5%	24,180.0	10.6%
Net loans and advances to customers(1)	66,484.0	38.4%	94,250.4	45.6%	98,118.1	43.2%
Net financial investments(1)	73,579.1	42.4%	72,188.5	34.9%	76,764.6	33.8%
Interest in associates	200.4	0.1%	218.5	0.1%	251.7	0.1%
Property and equipment	630.1	0.4%	549.3	0.3%	746.6	0.3%
Deferred tax assets	730.3	0.4%	1,071.5	0.5%	1,268.8	0.6%
Other assets(2)	1,869.5	1.1%	2,262.8	1.1%	1,035.9	0.5%
Total assets	**173,385.9**	**100.0%**	**206,869.8**	**100.0%**	**227,247.8**	**100.0%**
Liabilities						
Deposits from customers	116,301.4	71.0%	136,198.9	70.8%	144,896.8	68.6%
Financial assets sold under repurchase agreements	1,241.2	0.8%	10,301.2	5.4%	8,680.4	4.1%
Deposits from banks and other financial institutions	30,021.8	18.3%	11,468.7	6.0%	2,513.7	1.2%
Placements from banks and other financial institutions	100.0	0.1%	500.0	0.3%	100.0	0.0%
Debt securities issued	11,767.3	7.2%	26,163.2	13.6%	51,288.9	24.3%
Borrowing from the central bank	370.0	0.2%	1,025.0	0.5%	590.0	0.3%
Income tax payable	0.7	0.0%	336.2	0.2%	106.2	0.1%
Other liabilities(3)	3,912.2	2.4%	6,200.3	3.2%	3,075.9	1.4%
Total liabilities	**163,714.6**	**100.0%**	**192,193.5**	**100.0%**	**211,251.9**	**100.0%**
Total equity	**9,671.3**		**14,676.3**		**15,995.9**	
Total liabilities and equity	**173,385.9**		**206,869.8**		**227,247.8**	

Notes:

(1) Such balances of loans and advances to customers and financial investments are net of the relevant allowance for impairment losses. For details, see Note 18 and Note 19 of the Accountants' Report in Appendix I to this prospectus.

(2) Consist primarily of interests receivables, prepayments for acquisition of property and equipment and other receivables.

(3) Other liabilities consist primarily of interests payable, payment and collection clearance accounts, accrued staff cost and dividend payable.

For details, please see "Assets and Liabilities".

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

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

	For the year ended December 31,		
	2016	2017	2018
	(in millions of RMB)		
Interest income	7,663.0	8,199.5	8,345.0
Interest expense	(4,147.9)	(4,184.3)	(5,166.2)
Net interest income	**3,515.1**	**4,015.2**	**3,178.8**
Fee and commission income	436.3	374.0	490.3
Fee and commission expense	(33.4)	(42.3)	(66.6)
Net fee and commission income	**402.9**	**331.7**	**423.7**
Net trading gains/(losses)	(60.5)	(59.9)	231.8
Net gains arising from investment securities	82.2	91.3	887.4
Other operating income[(1)]	10.1	7.6	31.1
Operating income	**3,949.8**	**4,385.9**	**4,752.8**
Operating expenses	(1,707.4)	(1,680.3)	(1,750.8)
Impairment losses on assets	(905.1)	(1,203.5)	(1,535.5)
Operating profit	**1,337.3**	**1,502.1**	**1,466.5**
Share of profits of associates	0.4	18.1	33.2
Profit before tax	**1,337.7**	**1,520.2**	**1,499.7**
Income tax	(305.8)	(289.7)	(186.1)
Net profit	**1,031.9**	**1,230.5**	**1,313.6**
Net profit attributable to non-controlling interests	5.4	3.5	3.3
Net profit attributable to our shareholders	1,026.5	1,227.0	1,310.3
Basic earnings per share (RMB/share)	0.31	0.33	0.27
Diluted earnings per share (RMB/share)	0.31	0.33	0.27

Note:

(1) Consists primarily of penalty income, government grants, and net gains from disposal of repossessed and self-used property and equipment.

Our principal business lines include corporate banking, retail banking, and financial markets. For details of our principal business, please see "Business – Our Business Lines". The following table sets forth our operating income by segments for the years indicated.

	For the year ended December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except for percentages)					
Corporate banking	2,708.8	68.6%	3,242.9	73.9%	3,457.1	72.7%
Retail banking	699.5	17.7%	644.0	14.7%	1,073.8	22.6%
Financial markets	541.5	13.7%	496.2	11.3%	218.6	4.6%
Others[(1)]	–	–	2.8	0.1%	3.3	0.1%
Total[(2)]	**3,949.8**	**100.0%**	**4,385.9**	**100.0%**	**4,752.8**	**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.

Loans and Advances to Customers

As of December 31, 2016, 2017 and 2018, our gross loans and advances to customers amounted to RMB68,577.6 million, RMB97,189.7 million and RMB101,637.8 million, respectively.

Distribution of Loans by Collateral

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

	As of December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Pledged loans[1]	18,600.7	27.1%	21,136.9	21.7%	17,251.3	17.0%
Collateralized loans[1]	7,574.8	11.0%	11,282.0	11.6%	13,346.6	13.1%
Guaranteed loans[1]	40,511.7	59.1%	59,661.3	61.4%	63,531.8	62.5%
Unsecured loans	1,890.4	2.8%	5,109.5	5.3%	7,508.1	7.4%
Total loans and advances to customers	**68,577.6**	**100.0%**	**97,189.7**	**100.0%**	**101,637.8**	**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.

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, 2018					
	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						
Working capital loans	1,874.3	8,561.3	20,917.2	18,754.0	29.3	50,136.1
Fixed asset loans	323.4	–	2,218.8	14,068.4	6,067.5	22,678.1
Other loans	34.1	–	–	980.0	100.0	1,114.1
Subtotal	**2,231.8**	**8,561.3**	**23,136.0**	**33,802.4**	**6,196.8**	**73,928.3**
Personal loans						
Residential mortgage loans	13.3	0.0	0.9	58.0	9,331.4	9,403.6
Personal consumption loans	91.3	1,257.5	1,549.5	23.1	–	2,921.4
Personal business loans	198.3	92.7	355.6	1,085.0	38.9	1,770.5
Credit card	17.6	924.6	–	–	–	942.2
Subtotal	**320.5**	**2,274.8**	**1,906.0**	**1,166.1**	**9,370.3**	**15,037.7**
Discounted bills						
Bank acceptance bills	–	3,827.6	8,110.9	–	–	11,938.5
Commercial acceptance bills	–	108.7	624.6	–	–	733.3
Subtotal	**–**	**3,936.3**	**8,735.5**	**–**	**–**	**12,671.8**
Total loans and advances to customers	**2,552.3**	**14,772.4**	**33,777.5**	**34,968.5**	**15,567.1**	**101,637.8**

Note:

(1) Represents the principal amount of the loans overdue as of December 31, 2018.

Distribution of Corporate Loans by Size of Corporate Borrowers

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

	As of December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Micro and small enterprises[(1)]	14,920.2	31.8%	24,475.7	36.0%	21,447.6	29.0%
Medium to large enterprises[(1)]	31,735.2	67.6%	43,485.1	63.9%	52,478.4	71.0%
Others[(2)]	273.4	0.6%	93.9	0.1%	2.3	0.0%
Total corporate loans	**46,928.8**	**100.0%**	**68,054.7**	**100.0%**	**73,928.3**	**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.

Distribution of Corporate Loans by Industry

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

	As of December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Manufacturing	19,270.6	41.1%	22,939.8	33.7%	22,243.6	30.1%
Mining	13,049.8	27.8%	15,425.4	22.7%	16,168.2	21.9%
Real estate	1,892.5	4.0%	8,695.8	12.8%	13,529.1	18.3%
Wholesale and retail	5,896.6	12.6%	7,367.7	10.8%	6,925.6	9.4%
Leasing and business services	935.1	2.0%	4,157.1	6.1%	4,321.7	5.8%
Public administration, social security and social organization	1,566.4	3.3%	2,121.6	3.1%	4,082.8	5.5%
Construction	2,042.5	4.4%	3,698.1	5.4%	2,414.4	3.3%
Transportation, warehousing and postal services	588.8	1.3%	1,362.3	2.0%	1,891.9	2.6%
Electricity, gas and water production and supply	726.6	1.5%	1,291.6	1.9%	1,656.1	2.2%
Agriculture, forestry, animal husbandry and fishery	383.4	0.8%	173.7	0.3%	142.2	0.2%
Education	161.3	0.3%	130.4	0.2%	53.3	0.1%
Others[(1)]	415.2	0.9%	691.2	1.0%	499.4	0.6%
Total corporate loans	**46,928.8**	**100.0%**	**68,054.7**	**100.0%**	**73,928.3**	**100.0%**

Note:

(1) Consist primarily of (i) information transmission, software and information technology services, (ii) health, social security and social welfare, (iii) resident services, maintenance and other services, (iv) culture, sports and entertainment, and (v) scientific research and technical services.

During the Track Record Period, a majority of our corporate loans were granted to borrowers in the manufacturing and mining industries, which included some enterprises operating in the iron and steel industry and the coking industry that are commonly associated with heavy pollution, high energy consumption or overcapacity in China. Please see "Risk Factors – Risks Relating to Our Business – We face concentration risks from our credit exposure to certain industries, borrowers and geographic regions" for details on credit risks arising from our loans granted to these industries.

Distribution of Interest Income from Corporate Loans by Industry

The following table sets forth the distribution of our interest income from corporate loans by industry classification for the years indicated.

	For the year ended December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Manufacturing	1,135.7	43.1%	1,117.9	34.9%	1,262.1	31.9%
Mining	714.7	27.1%	712.1	22.2%	818.0	20.7%
Real estate	120.6	4.6%	284.9	8.9%	694.9	17.5%
Wholesale and retail	347.5	13.2%	431.7	13.5%	390.5	9.9%
Leasing and business services	51.8	2.0%	170.9	5.3%	225.8	5.7%

	For the year ended December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Public administration, social security and social organization	53.8	2.1%	151.6	4.7%	172.0	4.3%
Construction	103.0	3.9%	129.1	4.0%	149.3	3.8%
Transportation, warehousing and postal services	21.6	0.8%	73.9	2.3%	98.2	2.5%
Electricity, gas and water production and supply	38.4	1.5%	61.7	1.9%	85.5	2.2%
Agriculture, forestry, animal husbandry and fishery	12.3	0.5%	15.6	0.5%	8.4	0.2%
Education	16.6	0.6%	10.2	0.3%	5.4	0.1%
Others[(1)]	16.7	0.6%	48.1	1.5%	52.9	1.2%
Total interest income from corporate loans	2,632.7	100.0%	3,207.7	100.0%	3,963.0	100.0%

Note:

(1) Consist primarily of (i) information transmission, software and information technology services, (ii) health, social security and social welfare, (iii) resident services, maintenance and other services, (iv) culture, sports and entertainment, and (v) scientific research and technical services.

Distribution of Personal Loans by Product Type

As of December 31, 2016, 2017 and 2018, our residential mortgage loans accounted for 15.6%, 51.1% and 62.5% of our total personal loans, respectively. As of the same dates, our personal consumption loans accounted for 70.5%, 35.0% and 19.4% of our total personal loans, respectively.

For detailed discussion of our loans and advances to customers, please see "Assets and Liabilities – Assets – Loans and Advances to Customers".

Financial Investments

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

	As of December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Debt securities investment	14,086.7	19.0%	16,703.1	22.8%	23,030.3	29.8%
SPV investment	60,020.4	80.9%	54,156.3	74.0%	51,225.5	66.6%
Other investment[(1)]	58.1	0.1%	2,363.2	3.2%	2,762.0	3.6%
Total financial investments	**74,165.2**	**100.0%**	**73,222.6**	**100.0%**	**77,017.8**	**100.0%**

Note:

(1) Consist primarily of certificates of interbank deposit.

The following table sets forth a breakdown of our interest income from our debt securities investment, SPV investment and other financial investments as well as their respective average yields for the years indicated.

	For the years ended December 31,								
	2016[(1)]			2017[(1)]			2018[(2)]		
	Amount	% of total	Average yield[(1)]	Amount	% of total	Average yield[(1)]	Amount	% of total	Average yield[(1)]
	(in millions of RMB, except percentages)								
Debt securities investment	641.3	18.0%	3.85%	525.9	16.6%	3.43%	646.3	30.1%	3.44%
SPV investment	2,894.4	81.5%	5.16%	2,596.3	81.9%	5.26%	1,437.3	66.9%	4.54%
Others[(2)]	17.6	0.5%	3.23%	49.2	1.5%	4.69%	64.1	3.0%	4.45%
Total	**3,553.3**	**100.0%**	**4.85%**	**3,171.4**	**100.0%**	**4.75%**	**2,147.7**	**100.0%**	**4.14%**

Notes:

(1) Calculated by dividing (i) our interest income from the corresponding assets, by (ii) the average balance of these assets.

(2) Consist primarily of certificates of interbank deposit.

Cash Flows

During the Track Record Period, our cash inflows from operating activities before changes in operating assets and liabilities amounted to RMB2,539.9 million, RMB3,483.2 million and RMB3,636.0 million, respectively, in 2016, 2017 and 2018.

In 2016, we had net cash inflows from operating activities of RMB2,142.9 million. In 2017 and 2018, we recorded net cash outflows from operating activities of RMB18,147.5 million and RMB20,425.2 million, respectively. These net cash outflows from operating activities primarily resulted from (i) the increases in our loans and advances to customers and our financial assets held under resale agreements which were in line with our business expansion, and (ii) the decrease in our deposits from banks and other financial institutions, which mainly reflected adjustment to the mix of our financing structure pursuant to risk management policies where we increasingly obtained funds from issuing debt securities while reducing deposits from banks and other financial institutions.

In order to improve our cash flow position, we will continue to enhance our efforts to increase deposits from customers by innovating deposit products with specific features designed to address the demands of different customer groups, while optimizing our asset structure, closely monitoring and properly managing the cash outflows from our credit extension business and financial assets held under resale agreements.

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,		
	2016	**2017**	**2018**
Profitability indicators			
Return on average assets(1)	0.62%	0.65%	0.61%
Return on average equity(2)	11.05%	10.11%	8.70%
Net interest spread(3)	1.81%	2.03%	1.68%
Net interest margin(4)	2.09%	2.25%	1.70%
Cost-to-income ratio(5)	39.29%	37.19%	35.75%

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 by dividing net profit for the year by the average balance of total equity at the beginning and the end of the year.

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

We set forth below a brief explanation for the major fluctuations in our profitability indicators during the Track Record Period. For more details on the topic, please see "Financial Information – Results of Operations for the Years Ended December 31, 2016 and 2017" and "Financial Information – Results of Operations for the Years Ended December 31, 2017 and 2018".

- **Return on average equity.** The decrease of our return on average equity from 11.05% in 2016 to 10.11% in 2017 and further to 8.70% in 2018 was caused by (i) increases in our equity as a result of cash injection from investors in 2017 and 2018, which was in relation to our issuance of shares completed in February 2018; and (ii) an increase in the average cost on our interest-bearing liabilities driven by the increased certificates of interbank deposit issued by us and increased personal time deposits both of which had relatively high cost.
- **Net interest spread and net interest margin.** We experienced an increase in our net interest spread and net interest margin from 2016 to 2017, followed by a decrease in the same ratios from 2017 to 2018. Apart from the impact of the change of accounting policies, these changes were mainly due to changes in the average cost on our interest-bearing liabilities. More specifically, the average cost on our

interest-bearing liabilities decreased from 2.74% in 2016 to 2.56% in 2017, due to the increase of demand deposits as a percentage of our total deposits and the maturity of certain corporate time deposits with relatively high cost in 2017. By comparison, the average cost on our interest-bearing liabilities increased from 2.56% in 2017 to 2.79% in 2018, primarily caused by (i) the higher proportion taken up by personal time deposits with relatively high interest rates in 2018, and (ii) the increase of the certificates of interbank deposit issued by us (a kind of liabilities with relatively high cost) both in terms of the absolute amount and as a percentage of our total liabilities, as well as the growth of relevant interest rates due to impact of the market conditions.

- **Cost-to-income ratio.** The decrease in our cost-to-income ratio from 39.29% in 2016 to 35.75% in 2018 was primarily because the growth of our operating income outpaced the growth of our operating expenses (excluding taxes and surcharges), reflecting our effective cost control.

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,		
		2016	2017	2018
Capital adequacy indicators				
Core tier-one capital adequacy ratio(1)	≥7.50%	9.65%	10.16%	10.63%
Tier-one capital adequacy ratio(2)	≥8.50%	9.65%	10.16%	10.63%
Capital adequacy ratio(3)	≥10.50%	12.50%	12.52%	12.99%
Asset quality indicators				
NPL ratio(4)	≤5.00%	1.87%	1.64%	1.87%
Allowance coverage ratio(5)	≥150.00%	163.52%	183.96%	212.68%
Allowance to gross loan ratio(6)	≥2.50%	3.05%	3.02%	3.97%
Other indicator				
Loan-to-deposit ratio(7)	N/A	58.97%	71.36%	70.99%

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 – Latest Supervisory Standards 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. For details, please see "Supervision and Regulation – Supervision Over Capital Adequacy – Latest Supervisory Standards 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 – Latest Supervisory Standards 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 to customers by total NPLs.

(6) Calculated by dividing total allowance for impairment losses on loans 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 Friday, June 28, 2019 through Thursday, July 11, 2019. The application monies (including the brokerages, SFC transaction levy and Hong Kong Stock Exchange trading fees) will be held by the receiving bank on behalf of us and the refund monies, if any, will be returned to the applicants without interest on Wednesday, July 17, 2019. Investors should be aware that dealing in the H Shares on the Hong Kong Stock Exchange is expected to commence on Thursday, July 18, 2019.

OFFERING STATISTICS

The statistics in the following table are based on the assumptions that (i) the Global Offering is completed and 860,000,000 H Shares are newly issued in the Global Offering, (ii) the Over-allotment Option for the Global Offering is not exercised, and (iii) 5,728,000,000 Shares are issued and outstanding following the completion of the Global Offering:

	Based on an Offer Price of HK$3.80	Based on an Offer Price of HK$3.98
Market capitalization	HK$21,766.4 million	HK$22,797.4 million
Unaudited pro forma adjusted consolidated net tangible assets per Share(1)	RMB3.25(2)&(3) (HK$3.69)	RMB3.27(2)&(3) (HK$3.72)

Notes:

(1) The amount of unaudited pro forma adjusted consolidated 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 RMB0.88000 to HK$1.00. 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.

(3) The unaudited pro forma adjusted consolidated net tangible assets per Share does not take into account the declaration of cash dividends of RMB486.8 million subsequent to 31 December 2018, details of which are disclosed in the section headed "Summary – Dividend and Dividend Policy" in this prospectus. Had such dividend been taken into account, the unaudited pro forma adjusted consolidated net tangible assets per Share would be approximately HK$3.59 (based on an Offer Price of HK$3.80 per H Share) and approximately HK$3.63 (based an Offer Price of HK$3.98 per H Share) respectively.

DIVIDEND AND DIVIDEND POLICY

Our Board of Directors is responsible for submitting proposals in respect of dividend payments, if any, to the Shareholders at a general meeting for approval. 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.

Subject to our Articles of Association and laws and regulations on profit distribution, our Board will recommend dividend payments to our Shareholders. 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.

In 2017, we had declared and distributed dividends of cash dividends of RMB326.8 million for the year ended December 31, 2016. In May 2018, our Shareholders approved and passed the resolution in respect of the dividends for the year ended December 31, 2017 in a shareholders general meeting and the Board had since declared and distributed cash dividends of RMB486.8 million in respect of the year ended December 31, 2017.

On April 3, 2019, our Board of Directors passed a resolution which proposed to declare and distribute cash dividends of RMB486.8 million for the year ended December 31, 2018 to all existing shareholders on record as of December 31, 2018. The declaration and distribution of these dividends were approved by our Shareholders' meeting on April 29, 2019. We have declared and distributed these dividends in respect of the year ended December 31, 2018 with our internal funds.

As of the Latest Practicable Date, our declared but unpaid dividends amounted to RMB261.2 million, mainly comprising (i) dividends payable to shareholders that we were unable to contact, and (ii) dividends payable to shareholders who did not timely claim the dividends. We intend to use our internal funds to pay these declared but unpaid dividends after locating relevant shareholders, in accordance with relevant PRC laws and regulations.

Under the dividend policy approved by our Shareholders in 2018, both current and new 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 – Dividend and Dividend Policy".

COMPLIANCE WITH REGULATORY REQUIREMENTS ON SHARE PLEDGE BY SHAREHOLDERS

According to the CBRC Notice on Enhanced Management of Pledge of Equity Interest in 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 included the Voting Restrictions in our Articles of Association, which was approved by CBRC Shanxi Office on March 27, 2014. 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 the 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 must make a filing to the Board of Directors prior to the pledge. For details, please see "Supervision and Regulation – Ownership and Shareholder Restrictions – Restrictions on Shareholders". Please also see "Risk Factors – 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."

INFORMATION ON SUBSTANTIAL SHAREHOLDERS

As of the Latest Practicable Date, SSCIO was indirectly interested in approximately 28.89% of our total issued Shares. Immediately after the Global Offering and assuming that the Over-allotment Option is not exercised, SSCIO will be indirectly interested in approximately 24.55% of our total issued Shares (or approximately 24.01%, assuming that the Over-allotment Option is fully exercised).

As of the Latest Practicable Date, Shanxi Financial Investment Holding Group Co., Ltd. was directly interested in approximately 14.69% of our total issued Shares. Immediately after the Global Offering and assuming that the Over-allotment Option is not exercised, Shanxi Financial Investment Holding Group Co., Ltd. will be directly interested in approximately 12.48% of our total issued Shares (or approximately 12.21%, assuming that the Over-allotment Option is fully exercised).

Changzhi Nanye Industry Group Co., Ltd. ("**Changzhi Nanye**") and Changzhi Huashengyuan Mining Industry Co., Ltd. ("**Changzhi Huashengyuan**") are persons acting-in-concert according to their respective confirmation. As of the Latest Practicable Date, each of Changzhi Nanye and Changzhi Huashengyuan was interested in an aggregate of approximately 14.08% of our total issued Shares. Immediately after the Global Offering and assuming that the Over-allotment Option is not exercised, each of Changzhi Nanye and Changzhi Huashengyuan will be deemed to be interested in approximately 11.97% equity interest of our total issued Shares (or approximately 11.69%, assuming that the Over-allotment Option is fully exercised.)

As of the Latest Practicable Date, Huaneng Capital Service Co., Ltd. was directly interested in approximately 12.33% of our total issued Shares. Immediately after the Global Offering and assuming that the Over-allotment Option is not exercised, Huaneng Capital Service Co., Ltd. will be directly interested in approximately 10.47% of our total issued Shares (or approximately 10.24%, assuming that the Over-allotment Option is fully exercised).

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

FUTURE PLANS AND USE OF PROCEEDS

Assuming an Offer Price of HK$3.89, 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$3,230.5 million, if the Over-allotment Option is not exercised; or approximately HK$3,724.5 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, 2018. In February 2019, we obtained the Class-B lead underwriter qualification for underwriting debt financing instruments issued by non-financial enterprises.

As of March 31, 2019, our total assets increased to RMB229,553.1 million from RMB227,247.8 million as of December 31, 2018, mainly due to increases in loans and advances to customers and financial investments, reflecting our efforts in expanding our loan business and achieving optimized use of funds for better investment returns. As of March 31, 2019, our total liabilities increased to RMB213,179.7 million from RMB211,251.9 million as of December 31, 2018, primarily attributable to increases in deposits from customers, placements from banks and other financial institutions and financial assets sold under repurchase agreements which were driven by our business expansion.

For the three months ended March 31, 2019, our operating income decreased slightly to RMB1,207.0 million from RMB1,269.6 million for the same period in 2018, mainly caused by decreases in net trading gains and net interest income. The decrease of our net interest income from RMB887.0 million for the three months ended March 31, 2018 to RMB819.7 million for the three months ended March 31, 2019 was primarily attributable to (i) the decreased prevailing market rate for discounted bills; and (ii) the increase in our average cost of deposits from customers driven by the intensified market competition and the increased proportion of time deposits; and (iii) the increase in the average balance of debt securities issued by us. During the same period, the decrease of our net trading gains from RMB141.8 million to RMB57.2 million mainly reflected a decrease in fair value of the debt securities and funds that we held due to the impact from market conditions. For the three months ended March 31, 2019, our net gains arising from investment securities increased to RMB193.9 million from RMB157.0 million for the same period in 2018, mainly driven by the increased scale of our investment in debt securities.

The financial information as of and for the three months ended March 31, 2019 as shown above was extracted from the unaudited condensed consolidated interim financial statements as of and for the three months ended March 31, 2019 of the Group prepared by the Directors in accordance with IAS 34 “Interim Financial Reporting”, which were reviewed by KPMG, the reporting accountants of the Group, 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.

After taking into account various factors, including policies of relevant regulatory authorities, market demand for relevant assets and our business strategy, we may choose to dispose of certain loans and advances when we deem appropriate in accordance with our risk management policies.

Our Directors confirm that there was no material adverse change in our financial or operational position from December 31, 2018 to the date of this prospectus.

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 may not be sufficient to cover the actual losses on our loan portfolio in the future; (iii) we face concentration risks from our credit exposure to certain industries, borrowers and geographic regions; (iv) the collateral or guarantees securing our loans to customers may not be sufficient or fully realizable; (v) we are exposed to risks arising from loans granted to small and micro enterprises; (vi) 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; (vii) there are legal defects regarding some of our properties; (viii) we disposed of certain non-performing assets and should we become unable to dispose of or transfer such assets in the future, our liquidity, financial condition and results of operations may be affected; (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 investments; 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 our Shares, please see "Risk Factors".

LISTING EXPENSES

The listing expenses to be borne by us are estimated to be approximately RMB101.1 million (equivalent to approximately HK$114.9 million, assuming the Over-allotment Option is not exercised and the mid-point of the indicative Offer Price range of HK$3.89). RMB1.9 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, 2018, approximately RMB13.9 million is expected to be charged to our consolidated statements of profit or loss and other comprehensive income, and approximately RMB85.3 million is expected to be accounted for as a deduction from equity upon the Listing. 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, 2019.

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

"Application Form(s)"	**WHITE**, **YELLOW** 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 third extraordinary general meeting of 2018 held on December 17, 2018 and was approved by CBIRC Shanxi Office on January 4, 2019, which will become effective upon the Listing, as amended, supplemented or otherwise modified from time to time
"ATM(s)"	automated teller machine(s)
"Bank" or "our Bank"	Jinshang Bank Co., Ltd. (晉商銀行股份有限公司), a joint stock company established on October 16, 1998 in the PRC with limited liability pursuant to the relevant PRC laws and regulations, and, if the context requires, includes its predecessors, branches and sub-branches, excluding its subsidiary
"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"
"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 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
"CASBE"	the China Accounting Standards for Business Enterprises
"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
"CBIRC Shanxi Office"	China Banking and Insurance Regulatory Commission Shanxi Office, and, if the context requires, includes its predecessor, the CBRC Shanxi Office
"CBRC"	China Banking Regulatory Commission (中國銀行業監督管理委員會), which was merged with the CIRC 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
"CBRC Shanxi Office"	China Banking Regulatory Commission Shanxi Office

"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
"Central China"	a geographical region that covers six provinces located in the central area of China, including Shanxi Province, Henan Province, Hubei Province, Anhui Province, Jiangxi Province and Hunan Province
"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
"CIRC"	China Insurance Regulatory Commission (中國保險監督管理委員會), which was 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 the CBIRC and other regulatory authorities pursuant to the PRC Company Law and the PRC Commercial Bank 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"	Head & Shoulders Securities Limited and I Win Securities Limited
"commercial banks"	all of the banking institutions in the PRC, other than policy banks, which includes the Large Commercial Banks, the Nationwide Joint-stock Commercial Banks, city commercial banks and urban credit cooperatives, rural cooperative financial institutions, foreign banks and other banking institutions
"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
"core liabilities"	core liabilities include time deposits and debt securities issued both with remaining maturities of three months or longer as well as stable part of demand deposits, according to the Administrative Measures on Liquidity Risk Management of Commercial Banks (商業銀行流動性風險管理辦法) promulgated by the CBIRC on May 23, 2018
"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

"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
"Financial Advisor"	Shanxi Securities International Capital Limited
"Fintech"	a portmanteau of financial technology that refers to any technological innovation in the financial sector, including innovations in financial literacy and education, retail banking, investment and even crypto-currencies like bitcoin
"GDP"	nominal gross domestic product, unless otherwise specified as real 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
"Group", "we" or "us"	the Bank together with its subsidiary, and, if the context requires, includes its predecessors, branches and sub-branches
"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"	86,000,000 H Shares (subject to adjustment) offered in 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"	The Stock Exchange of Hong Kong Limited
"Hong Kong Underwriters"	the underwriters listed in "Underwriting – Hong Kong Underwriters"

"Hong Kong Underwriting Agreement"	the underwriting agreement relating to the Hong Kong Public Offering dated June 27, 2019 entered into by, among others, the Bank and the Hong Kong Underwriters, as described in "Underwriting – Hong Kong Underwriters"
"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"	774,000,000 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"	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
"Jinshang Consumer Finance"	Jinshang Consumer Finance Co., Ltd. (晉商消費金融股份有限公司), a joint stock company established in the PRC on February 23, 2016 in which we hold a 40.0% equity interest

"Joint Bookrunners"	CCB International Capital Limited, China International Capital Corporation Hong Kong Securities Limited, CMB International Capital Limited, AMTD Global Markets Limited, Shanxi Securities International Limited, SPDB International Capital Limited, ABCI Capital Limited, ICBC International Capital Limited and Haitong International Securities Company Limited
"Joint Global Coordinators"	CCB International Capital Limited, China International Capital Corporation Hong Kong Securities Limited, CMB International Capital Limited and AMTD Global Markets Limited
"Joint Lead Managers"	CCB International Capital Limited, China International Capital Corporation Hong Kong Securities Limited, CMB International Capital Limited, AMTD Global Markets Limited, Shanxi Securities International Limited, SPDB International Capital Limited, ABCI Securities Company Limited, ICBC International Securities Limited and Haitong International Securities Company Limited
"Joint Representatives"	CCB International Capital Limited, China International Capital Corporation Hong Kong Securities Limited and CMB International Capital Limited
"Joint Sponsors"	CCB International Capital Limited, China International Capital Corporation Hong Kong Securities Limited and CMB International Capital Limited
"Large Commercial Banks"	Agriculture Bank of China, Bank of China, Bank of Communications, China Construction Bank, Industrial and Commercial Bank of China, 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, 2019, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication

"LGFV"	local government financing vehicle
"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
"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 Commission for Restructuring the Economic System 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 their 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, 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, and total assets 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)
"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., Evergrowing Bank Co., Ltd., China Zheshang Bank Co., Ltd. and China Bohai Bank Co., Ltd., collectively
"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 referring 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

"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 – The International Offering"
"PBoC"	the People's Bank of China (中國人民銀行), the central bank of the PRC
"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 Standing Committee 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
"Price Determination Date"	the date, expected to be on or around July 11, 2019, on which the Offer Price is to be fixed by an agreement between us and the Joint Representatives (on behalf of the Underwriters) for purpose of the Global Offering
"provincial city commercial bank"	a city commercial bank directly administered by provincial PRC government authorities, as opposed to city commercial banks administered by governments at the city level or lower
"Qingxu Village and Township Bank"	Qingxu Jinshang Village and Township Bank Co., Ltd. (清徐晉商村鎮銀行股份有限公司), a joint stock company established in the PRC on January 19, 2012 and a 51.0% owned subsidiary of our Bank
"real property ownership certificate"	real property ownership 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 the Related Party Transactions between the 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 the Related Party Transactions between the 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, Accounting Standards for Business Enterprises (企業會計準則) promulgated by the MOF, and/or IFRS
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SAFE"	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SAMR"	the State Administration for Market Regulation of the PRC (中華人民共和國國家市場監督管理總局), formerly known as 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), or "SAIC"
"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)
"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
"Shanxi Government"	the People's Government of Shanxi Province (山西省人民政府)
"Shanxi SASAC"	State-owned Assets Supervision and Administration Commission of Shanxi Provincial People's Government (山西省人民政府國有資產監督管理委員會)
"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
"SPV Investment"	investments made by financial institutions in special purpose vehicles, including but not limited to wealth management products managed by commercial banks, trust plans managed by trust companies, asset management plans and securities investment funds managed by fund management companies and securities firms (including their subsidiaries), asset management products managed by insurance asset management companies, which is defined in Notice on Regulating Interbank Businesses 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 the PBoC, CBRC, CSRC, CIRC and SAFE on April 24, 2014.
"SSCIO"	Shanxi State-owned Capital Investment and Operation Co., Ltd. (山西省國有資本投資運營有限公司)
"Stabilizing Manager"	CCB International Capital Limited
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules

"Supervisor(s)"	the supervisor(s) of the Bank
"Takeovers Code"	the Codes on Takeovers and Mergers and Share Buy-backs
"Track Record Period"	the years ended December 31, 2016, 2017 and 2018
"Underwriters"	collectively, the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	collectively, the Hong Kong Underwriting Agreement and the International Underwriting Agreement
"urban village"	urban villages generally refer to villages that appear in various segments of major Chinese cities. They are typically surrounded by skyscrapers, transportation infrastructures, and other modern urban constructions. Urban villages are a unique phenomenon that formed part of China's urbanization efforts. Urban villages are commonly inhabited by the poor and transient, and as such they are associated with squalor, overcrowding and social problems. However, they are also among the liveliest areas in some cities and are notable for affording economic opportunity to newcomers to the city
"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
"Western China"	a geographic region which covers one municipality: Chongqing; six provinces: Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, and Qinghai; and three autonomous regions: Tibet, Ningxia, and Xinjiang
"**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 From eIPO** Service Provider"	Computershare Hong Kong Investor Services Limited
"**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.

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.

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.

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 Shanxi Province 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;
- the amount and nature of, potential for and future development of our business;
- future developments, trends and conditions in the industry and markets in which we operate;
- changes to the regulatory environment and general outlook in the industry and markets in which we operate;
- market competition, and the products, actions and developments of competitors;
- general political and economic conditions; and
- capital market developments.

Subject to the requirements of applicable laws, rules and regulations, we do not intend to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. 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 amounted to RMB68,577.6 million, RMB97,189.7 million and RMB101,637.8 million as of December 31, 2016, 2017 and 2018, respectively. As of the same dates, our non-performing loans amounted to RMB1,280.4 million, RMB1,597.8 million and RMB1,899.0 million, respectively, and our non-performing loan ratio was 1.87%, 1.64% and 1.87%, respectively. Our NPL ratio rose in 2018 primarily due to operational difficulties and weakened repayment abilities of some corporate borrowers in the manufacturing industry and the wholesale and retail industry.

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 or Shanxi Province's economy, adverse macroeconomic developments, fluctuation in capital markets, an outbreak of disasters or occurrence of major accidents in China or other regions. 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 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 impairment losses on loans to customers may not be sufficient to cover the actual losses on our loan portfolio in the future.

As of December 31, 2016, 2017 and 2018, the balance of our non-performing loans was RMB1,280.4 million, RMB1,597.8 million and RMB1,899.0 million, respectively. Our allowance impairment losses on loans to customers was RMB2,093.6 million, RMB2,939.3 million and RMB4,038.8 million as of December 31, 2016, 2017 and 2018, respectively, and our allowance coverage ratio was 163.52%, 183.96% and 212.68% respectively. Our allowance to gross loan ratio was 3.05%, 3.02% and 3.97% respectively, as of the same dates. We determine impairment allowance amount based on our assessment of various factors affecting the quality of our loan portfolio. These factors include our borrowers' operational and financial condition, repayment ability, intention to repay, the realizable value of any collateral and the ability of guarantors of our customers to fulfill their obligations, as well as China's economic, legal and regulatory environment. For details, please refer to "Assets and Liabilities – Assets – Allowance for Impairment Losses on Loans to Customers". 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. Any of the above factors may significantly reduce our profit and materially and adversely affect our business, prospects, 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, 2016, 2017 and 2018, our corporate loans represented 68.4%, 70.1% and 72.7% of our total loans and advances to customers, respectively. As of December 31, 2018, our loans to the manufacturing, mining, real estate, wholesale and retail, and leasing and commercial services industries, which were the top five industries from which our corporate loan customers are derived, represented 30.1%, 21.9%, 18.3%, 9.4% and 5.8% of our total corporate loans, respectively. As of December 31, 2018, the non-performing loan ratio for loans to corporate borrowers in these five industries was 2.60%, 1.82%, 0.45%, 8.32% and 0.48%, respectively.

As of December 31, 2018, 17.5% of our corporate loans were granted to the iron and steel industry and the coking industry, which are commonly associated with heavy pollution, high energy consumption or overcapacity in China, and the NPL ratio of these loans was 1.81% as of the same date. 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, please see "Risk Management – Credit Risk Management – Credit Risk Management for Corporate Loans – Portfolio Management – Credit Risk Management for Loans to Industries with Heavy Pollution, High Energy Consumption or Overcapacity".

Any deterioration in any of the industries where our loans 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, 2018, loans to our ten largest single borrowers totaled RMB12,048.8 million, representing 60.4% 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 RMB21,215.2 million, representing 106.3% of our regulatory capital and were all classified as normal. If these loans deteriorate in quality or becomes 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 Shanxi Province and, in particular, the city of Taiyuan. As of December 31, 2016, 2017 and 2018, 63.3%, 71.2% and 74.1%, respectively, of our loans to customers originated from Taiyuan, while 73.3%, 74.7% and 72.8%, respectively, of our deposits from customers originated from Taiyuan. In addition, most of our business and operations are expected to remain in Shanxi Province for the foreseeable future. Therefore, our continued growth depends to a large extent on the continued growth of Shanxi Province and Taiyuan's economy, and we are exposed to risks arising from concentration of loans extended in Shanxi Province and in Taiyuan. If the local economy of a select region within Shanxi Province slows down or experiences negative development, we will take into account various factors to determine cautious measures to reduce our risk exposure including disposal of certain NPLs to mitigate risks associated with the select region. These factors include our overall strategy in terms of business development in different regions and our needs for liquidity risk and credit risk control. Any adverse change in the economic development of or any significant natural disaster or catastrophic event occurring in Shanxi Province and in Taiyuan, or any material adverse change in financial condition of our customers in this region or any party 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, 2018, 13.1%, 17.0% and 62.5% of our total loans 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 macroeconomic factors 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 said 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 or prior 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.

The guarantees under our guaranteed loans are generally not backed by sufficient collateral or other security interests. In addition, some of the guarantees are provided by affiliates of the relevant borrower. As a result, certain factors which affect a borrower's ability to repay a guaranteed loan in full and on time may also affect the affiliated guarantor's ability to fully perform its guarantee obligations. In particular, excessive guarantees provided by borrowers or guarantors of our loans and advances towards third parties may negatively affect (i) borrowers' capacity of making timely repayment or (ii) the value of collateral or guarantee provided by relevant guarantor securing relevant loans. In addition, we are subject to the risk that a court or any other judicial or government authority may declare a guarantee invalid or refuse to enforce such guarantee if, for example, (i) the guarantor providing the guarantee lacked the capacity or proper authorization to do so, which renders the guarantee agreement invalid in the first place, (ii) the loan agreement entered into was invalid, or (iii) the guarantee violates applicable laws and regulations, or damages national or public interest. If we are unable to dispose of the assets of borrowers and guarantors 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, 2018, unsecured loans accounted for 7.4% of our total loans to customers. We grant 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, please see "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 Appendix I attached to this prospectus. As a result, our results of operations during the years ended December 31, 2016 and 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 have been our primary funding source. We rely on the growth in deposits from customers to expand our loan business and 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 RMB116,301.4 million, RMB136,198.9 million and RMB144,896.8 million as of December 31, 2016, 2017 and 2018, 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 difficulty in raising financing may result in increased corporate deposit withdrawals and corporations 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. As of December 31, 2018, 35.1% of our total deposits from customers were due within one year. As of the same date, 47.8% of our total loans to customers were due within one year. 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 investments.

During the Track Record Period, our SPV investments included investments in trust plans, asset management plans, wealth management products, and investment funds. As of December 31, 2016, 2017 and 2018, our SPV investment amounted to RMB60,020.4 million, RMB54,156.3 million and RMB51,225.5 million, respectively, accounting for 34.6%, 26.2% and 22.5%, respectively, of our total assets as of the same dates. For details of our SPV investments, please see "Business – Our Business Lines – Financial Markets – Investment Management – SPV Investment".

SPV investment may involve 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, 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". For example, we may not be able to receive repayment of principal of, and returns on these SPV investments due to material and adverse changes in the financial condition of the relevant trust companies, securities companies or 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 related 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 investments are 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 above-mentioned factors 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 investments, 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 is comprised of debt securities. As of December 31, 2016, 2017 and 2018, the gross amount of our total debt securities investment (exclusive of interest accrued) was RMB14,086.7 million, RMB16,703.1 million and RMB23,030.3 million, respectively, representing 8.1%, 8.1% and 10.1% of our total assets as of the same dates, respectively. As of December 31, 2016 and 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, or investments classified as receivables under IAS 39. Since January 1, 2018, our debt securities have been classified as financial investments measured at amortized 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.

As of December 31, 2018, RMB20,276.9 million of our gross debt securities (exclusive of interest accrued) were classified as financial investments measured at amortized costs, representing 42.4% of our gross financial investments measured at amortized cost (exclusive of interest accrued) which amounted to RMB47,784.7 million and 8.9% of our total assets. As of the same date, RMB2,335.1 million of our gross debt securities (exclusive of interest accrued) were classified as financial investments measured at fair value through other comprehensive income, representing 1.0% of our total assets. As of the same date, RMB418.3 million of our debt securities were classified as financial investments measured at fair value through profit or loss, representing 0.2% of our total assets. After taking into account the interest accrued, the gross amount of our debt securities investment as of December 31, 2018 was RMB23,348.5 million, including (i) RMB20,564.5 million classified as financial investments measured at amortized costs, representing 42.5% of our gross financial investments measured at amortized costs (including interest accrued) which amounted to RMB48,427.5 million, (ii) RMB2,365.7 million classified as financial investments measured at fair value through other comprehensive income, and (iii) RMB418.3 million classified as financial investments measured at fair value through profit or loss. As of the same date, our net financial investments measured at amortized costs (including interest accrued) was RMB47,469.9 million. For more details, please see Note 19(a), Note 19(b) and Note 19(c) of the Accountants' Report in Appendix I.

Our investment returns on debt securities are affected by a number of factors, many of which are beyond our control, including the interest rate, creditworthiness of the overall market and our counterparties, market liquidity, asset values, as well as other market and economic conditions. Any material change 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 significantly 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 recent 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 which are classified as financial investments measured at amortized costs, financial investments measured at fair value through other comprehensive income or financial investments measured at fair value through profit or loss under our current accounting standards 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.

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

As of December 31, 2018, we had financial investments measured at fair value through profit or loss of RMB24,251.9 million and financial investments measured at fair value through other comprehensive income (exclusive of interest accrued) of RMB4,981.2 million, before taking into account the allowance for impairment losses and the interest accrued. For details of our financial investments measured at fair value through profit or loss and financial investments measured at fair value through other comprehensive income, please see "Assets and Liabilities – Financial Investments". After taking into account the interest accrued, our financial investments at fair value through other comprehensive income amounted to RMB5,042.8 million as of December 31, 2018. All these financial investments are stated at fair value. We recognize fair value change in profit or loss which arising from re-measurement of investments classified as financial investments measured at fair value through profit or loss in the relevant accounting period. For financial investments measured at fair value through other comprehensive income, we recognize change in their fair value under other comprehensive income.

For the years ended December 31, 2016, 2017 and 2018, we recognized RMB32.8 million of fair value losses, RMB27.2 million of fair value losses and RMB225.0 million of fair value gains, respectively, from re-measurement of investments classified as financial investments measured at fair value through profit or loss. During the same periods, we also recorded net losses from disposal of financial investments at fair value through profit or loss in 2016 and 2017, which amounted to RMB27.7 million and RMB32.8 million, respectively, and realized net gains from disposal of financial investments at fair value through profit or loss amounting to RMB6.4 million in 2018. These net gains or losses arising from re-measurement or disposal of financial investments at fair value through profit or loss were recognized in "net trading (losses)/gains". In addition, we received investment income from financial investments at fair value through profit or loss in 2016 and 2018, which amounted to RMB16.2 million and RMB881.5 million, respectively, and was recognized as "net gains of financial investments at fair value through profit or loss" (a component of "net 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 will result in a decline in our reported shareholders' equity, book value per share and net profit. In addition, the value ultimately realized by us on 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. In particular, as of December 31, 2016 , 2017 and 2018, we did not have any financial instruments classified as level 1 and our level 2 financial assets amounted to RMB5,655.5 million, RMB9,969.7 million and RMB37,995.0 million, respectively, representing approximately 79.9%, 90.3% and 90.5%, respectively, of our total financial assets measured at fair value as of the same dates. 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, 2016, 2017 and 2018, our level 3 financial assets amounted to RMB1,419.2 million, RMB1,065.6 million and RMB3,971.5 million, respectively, representing approximately 20.1%, 9.7% and 9.5%, respectively, of our total financial assets measured at fair value as of the same dates and approximately 0.8%, 0.5% and 1.7%, respectively, of our total assets as of the same dates.

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, the judgment and estimation is a subjective process and is subject to inherent limitations. We cannot assure you that such judgment and estimation are accurate, in which case the fair value of relevant financial instruments may 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, 2016, 2017 and 2018, our loans to micro and small enterprises represented 31.8%, 36.0% and 29.0%, respectively, of our total corporate loans. We believe that micro and small enterprises are generally more vulnerable to macroeconomic fluctuations than larger enterprises, as they may lack the financial, management or other resources necessary to withstand the adverse effects brought on by economic slowdowns or changes in the regulatory environment. Any adverse changes in the economic or regulatory environment 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. In addition, information available on micro and small enterprises could be relatively inadequate for us to assess their credit risks. As of December 31, 2016, 2017 and 2018, our non-performing loan ratio of micro and small enterprise loans was 4.84%, 3.58% and 5.78%, respectively. Our non-performing loan ratio may increase due to the effects on our micro and small enterprise customers caused by economic slowdowns or unfavorable changes in the 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 have extended loans to LGFVs during the Track Record Period. LGFVs are economic entities with independent legal capacity established by local governments or other departments and institutions which, through fiscal allocation or injection of assets such as land and equity, are responsible for financing government-sponsored projects. LGFVs typically use loan proceeds to make investments in infrastructure or industrial zone construction, renovation of old districts, or development of public interest projects. They typically repay us with operating cash flows generated from the relevant projects and the local government budget. As of December 31, 2016, 2017 and 2018, the balance of loans we granted to the LGFVs was RMB399.1 million, RMB300.0 million and RMB298.0 million, respectively, representing 0.9%, 0.4% and 0.4% of our loans to corporate banking customers, respectively, and 0.6%, 0.3% and 0.3% of our total loans, respectively.

As of December 31, 2018, we had outstanding credits extended to only one LGFV, a state-owned entity, where loan proceeds were used to facilitate an urban village reconstruction project. For the year ended December 31, 2018, this LGFV recorded negative operational cash flows, mainly because the reconstruction project was still undergoing its initial phase where residents had to be compensated and relocated before the LGFV could further consolidate the underlying properties for sale and generate additional cash flows from there. We cannot assure you that this LGFV's cash flow condition will improve in the near future. For details on how we manage risks related to this and other LGFVs, please see "Risk Management – Credit Risk Management – Credit Risk Management for Corporate Loans – Portfolio Management – Credit Risk Management for Loans to LGFVs".

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.

A macroeconomic slowdown, unfavorable changes in governmental policies, the deterioration in the financial condition of local governments, significant decline in property prices or other external factors may undermine the repayment capabilities of relevant LGFVs, which may, in turn, materially and adversely affect our asset quality, financial condition and results of operations. 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, please see "Supervision and Regulation – Regulation on Principal Commercial Banking Activities". For details on how we manage risks related to LGFVs, please 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 loss in connection with default by LGFV borrowers, 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 to the real estate industry, residential mortgage loans and other loans secured by real estate. As of December 31, 2016, 2017 and 2018, our loans to corporate borrowers in the real estate industry represented 4.0%, 12.8% and 18.3%, respectively, of our total corporate loans. As of the same dates, our residential mortgage loans represented 15.6%, 51.1% and 62.5%, respectively, of our total personal loans. As of the same dates, loans secured by real estate amounted to 9.4%, 9.7% and 11.4% of our total loans amounts. Our maximum loan-to-value ratio, an indicator that compares the size of a loan to the value of the property securing the loan, for loans secured by real properties ranges from 50% to 80%.

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 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 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.

We cannot assure you that the historical decreasing trend of our effective tax rate will continue in the future.

During the Track Record Period, our effective tax rate was 22.9%, 19.1% and 12.4% in 2016, 2017 and 2018, respectively. The continued decrease in our effective tax rate was mainly due to our increased non-taxable income, which was further caused by an increase in our investment in debt securities issued by PRC Government and funds that is tax free according to relevant PRC laws and regulations.

From time to time, we make investment decisions to adjust investment portfolios after taking into account a broad range of factors, including but not limited to our risk appetite, capital consumption level and expected yields of relevant products, as well as economic environment and regulatory development. Interest income from some debt securities and funds being non-taxable is only one of many factors that we consider. In the future, we will still consider to invest in debt securities issued by PRC Government and funds based on the result of our analysis. However, we cannot assure you that the scale of such non-taxable investment will increase or that we could enjoy a lower effective tax rate going forward. If we are unable to maintain our effective tax rate on the same or lower level, our results of operations could be adversely affected.

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

As of December 31, 2018, our deferred tax assets amounted to RMB1,268.8 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 wealth management products we offer.

We started to offer wealth management products to our customers in January 2011. For the years ended December 31, 2016, 2017 and 2018, wealth management products issued by us amounted to RMB76,335.4 million, RMB72,447.4 million and RMB58,262.2 million, respectively. We invested the proceeds from our wealth management products mainly in debt securities, which accounted for 92.7%, 94.3% and 95.3% of our wealth management products as of December 31, 2016, 2017 and 2018, respectively. 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 year ended December 31, 2018, 78.4% of the volume of wealth management products we issued were non-principal protected. Given that some of our wealth management products are principal protected, we may have to pay back the principal and investment returns utilizing our own funds if the underlying investments do not perform as anticipated, which may adversely affect our profits and financial condition. As most of the wealth management products we issued were non-principal protected, we are not liable for losses suffered by the investors in these products. 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 investments with funds raised from wealth management products. For more details, please 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 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. This 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**"). In addition, the April 27 Guideline 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**"). For details on the content of the April 27 Guideline, please also see "Supervision and Regulation – Regulation on Principal Commercial Banking Activities – Securities and Asset Management Businesses". In line with restrictions set out in the April 27 Guideline (particularly the Non-Guarantee Requirements and Other Requirements) and its subsequent interpretations, we will no longer be permitted to issue principal-protected wealth management products after a transitional period ending on December 31, 2020. For the year ended December 31, 2018, 21.6% of the volume of wealth management products we issued were principal-protected. Such restrictions may thus lead to a decrease in our financial market business. In particular, customers accustomed to principal-protected wealth management products may seek other types of financial products with features that we cannot or are not licensed to offer, thereby hindering our ability to attract or retain clients.

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 was issued recently 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, or issue new laws and rules to replace the April 27 Guideline 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 89.0%, 91.5% and 66.9% of our operating income for the years ended December 31, 2016, 2017 and 2018, 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 would 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 city commercial banks and borrowers' demand for bank financing, which in turn may affect our business, results of operations and financial condition.

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 up a floating ceiling deposit interest rate for commercial banks, signifying the further liberalization of controls on interest rates. 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. The Deposit Insurance Regulation insures each depositor of a bankrupt bank in an amount up to RMB500,000. Banks are required to pay premiums for the deposit insurance program, which will increase our operating costs and may therefore adversely affect our financial condition and results of operations. The nature of the impact of the Deposit Insurance Regulation 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, 2016, 2017 and 2018, 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 19.2%, 11.7% and 5.3% of our total liabilities, respectively. According to relevant PRC laws and regulations, including the Notice on Regulating Interbank Businesses of Financial Institutions (關於規範金融機構同業業務的通知) jointly issued by the PBoC, CBRC, CSRC, CIRC and SAFE on April 24, 2014 ("**Interbank Lending Notice**"), 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 have complied with the Interbank Lending Notice. 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, please 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 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, 2018, our off-balance sheet commitments totaled RMB28,341.9 million. For more details, please 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. Please 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 during the transitional implementation period. Calculated in accordance with the Capital Administrative Measures, as of December 31, 2018, 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 non-performing loans 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 to sanction 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 had negative net cash flows from operating activities for the years ended December 31, 2017 and 2018. If we have negative operating cash flows in the future, our liquidity and financial conditions may be materially and adversely affected.

We had negative net cash flows from operating activities of RMB18,147.5 million and RMB20,425.2 million, respectively, for the years ended December 31, 2017 and 2018. The negative net cash flow from operating activities primarily resulted from (i) the increases in our loans and advances to customers and our financial assets held under resale agreements which was in line with our business expansion, and (ii) the decrease in our deposits from banks and other financial institutions, which resulted from our adjustment to the mix of financing structure pursuant to our risk management policies by increasing the funds we obtained from issuing debt securities while reducing deposits from banks and other financial institutions.

We cannot assure you that we will be able to generate positive cash flows from operating activities. 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 or occupied 71 real properties with an aggregate GFA of approximately 81,210.9 square meters, which we mainly used as outlets and offices. We had obtained building ownership certificates and land use certificates, or the real property ownership certificates through grant, for 45 properties with an aggregate GFA of approximately 63,483.5 square meters. For three real properties with an aggregate GFA of approximately 1,746.3 square meters, we had obtained the relevant building ownership certificates, and obtained, through allocation, land use certificates for the land occupied by these properties. For 17 real properties with an aggregate GFA of approximately 4,396.8 square meters, we had obtained the relevant building ownership certificates, but had not obtained the relevant land use right certificates. For three real properties with an aggregate GFA of approximately 10,205.3 square meters, we had not yet obtained the relevant building ownership certificates. In addition, three of our real properties with an aggregate GFA of approximately 1,379.0 square meters were subject to the government's acquisition due to an ongoing underground construction project in the relevant area. As of the Latest Practicable Date, we also owned the land use right of one parcel of land with an area of approximately 842.8 square meters, which had remained undeveloped for over two years. According to the provisions of Disposal Measures on Idle Land (《閒置土地處置辦法》), this parcel of land is categorized as idle land and may be seized by the government. For details on our properties, please 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 158 properties with an aggregate GFA of approximately 156,362.1 square meters, which we mainly used as outlets and offices. We cannot assure you that we will be able to renew such leases on terms acceptable to us upon their expiration or at all, or we will not be subject to penalties from PRC regulatory authorities. 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. For these 158 leased properties, we had registered 52 leasing agreements with the relevant housing administrative authorities with an aggregate GFA of approximately 91,924.4 square meters. According to the Administrative Measures for Commercial Housing Leases (《商品房屋租賃管理辦法》), failure to complete lease registration may subject the parties to a lease agreement 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 RMB1.06 million. For details of our properties including leased properties, please see "Business – Properties".

We disposed of certain non-performing assets and should we become unable to dispose of or 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 policy, disposed of certain non-performing assets at various discount rates or without discount, primarily to various asset management companies in the PRC. These non-performing assets mainly include non-performing loans and financial investments. These asset management companies are independent third parties. We may choose to continue disposing of loans and other assets from time to time in accordance with our liquidity management and risk management policies when we deem appropriate. Our current results of operations and financial condition would be different had these disposals not taken place. For the years ended December 31, 2016, 2017 and 2018, the principal of non-performing assets we disposed of amounted to RMB2,301.9 million, RMB674.3 million and RMB1,068.8 million, respectively. Our NPL amount and NPL ratio during the relevant periods would be higher had such disposals failed to take place. In the future, we may not be able to dispose of our assets or loans on a similar scale or on similar terms.

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 of Shanxi Province and Taiyuan, such as the State Council's *13th Five-Year Plan for Development of Central China* (《促進中部地區崛起"十三五"規劃》) issued in 2016, the State Council's *Opinions on Supporting Shanxi Province's Further Reform on Transforming and Developing Its Resource-based Economy* 《關於支持山西省進一步深化改革促進資源型經濟轉型發展的意見》(國發[2017]42號) issued in September 2017, and the NDRC's *Opinions on Supporting the Cooperation Between Shanxi Province and the Beijing-Tianjin-Hebei Region to Realize Joint Development* (《關於支持山西省與京津冀地區加強協作實現聯動發展的意見》) issued in October 2018. However, we cannot guarantee that PRC Government will maintain its favorable policies in promoting the development of Shanxi Province and Taiyuan. 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 will 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 RMB10.1 million, RMB7.6 million and RMB31.1 million, respectively, in 2016, 2017 and 2018, representing 0.3%, 0.2% and 0.7% of our total operating income during the same periods. The non-recurring income we received mainly included government grants issued in recognition of our contribution to the regional economy, net gains from disposal of repossessed and self-used property and equipment assets, and penalty income.

The availability of non-recurring income is dependent on a variety of factors. For example, our eligibility for government grants is depending on relevant government policies, the availability of funding at different granting authorities, and the granting authorities' assessments on us, and so on. 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. Loss or reduction 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 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.

In particular, we consider fee- and commission-based businesses and other non-interest income business, among other things, key drivers to properly manage challenges and risks associated with interest rate liberalization. As a result of the bank card-related fees we waived or reduced in order to attract more quality customers, implement the national inclusive financial policy and practice the concept of local banks serving the citizens, our revenue from our fee- and commission-based businesses represented only a small portion of our total operating income during the Track Record Period. Our net fee and commission income amounted to RMB402.9 million, RMB331.7 million and RMB423.7 million for the years ended December 31, 2016, 2017 and 2018, respectively, representing 10.2%, 7.6% and 8.9% of our operating income for the same periods, respectively.

The specific waived or reduced fees included the cost of opening certain IC cards, certain bank cards' annual fees, ATM cross-bank withdrawal fees, short message service (SMS) fees and online banking and mobile banking transfer handling fees. 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 particular, 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, wealth management, consumer finance and checking and savings services. Please see the section headed "– 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. Please also see "– 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, please see "Business – Information Technology". 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 protect from 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, anti-DDOS network attack mechanisms 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, please 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, CSRC, MOF, NAO, SAMR and SAT. 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 as of the Latest Practicable Date, we failed to meet certain of the above regulatory requirements, causing an aggregated fine and improper gains confiscation of about RMB5.9 million. For details on the penalties in respect of these failures to meet certain of the regulating requirements, please 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 liable 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.

We may not be able to effectively manage the risks associated with our Qingxu Village and Township Bank.

As of December 31, 2018, we held 51.0% equity interests in Qingxu Village and Township Bank (清徐村鎮銀行). For the years ended December 31, 2016, 2017 and 2018, our operating income attributable to Qingxu Village and Township Bank amounted to RMB35.4 million, RMB44.0 million and RMB41.1 million, respectively, accounting for 0.9%, 1.0% and 0.9%, respectively, of our total operating income during the same period.

We give a certain level of autonomy to Qingxu Village and Township Bank in terms of risk management and internal control. We cannot assure you that Qingxu Village and Township Bank will manage risks as rigorously as our Bank does or that our Bank will be able to detect and/or rectify deficiencies in their risk management, internal control system or failure of their information technology systems in a timely manner. In May 2017, Qingxu Village and Township Bank received one administrative penalty in the amount of RMB200,000 for its inadequate pre-loan investigation and post-disbursement monitoring on use of proceeds. While we have adopted various risk management measures to mitigate relevant risks as disclosed in details in "Business – Distribution Network – Qingxu Village and Township Bank", we cannot assure you that we can always successfully identify, prevent or mitigate risks associated with the management of Qingxu Village and Township Bank due to limitations of risk management work, and because Qingxu Village and Township Bank adopts a separate information technology system which operates independently from that of our Bank. We cannot assure you that Qingxu Village and Township Bank will always operate its business in the way we expect. Furthermore, weakness or failures in their internal processes or systems or other operational challenges could lead to a disruption in our operations, liabilities to clients, exposure to disciplinary action or reputational harm.

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 subsidiary and associate, 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, and risk management have been extensively reported by the media. There was also negative media coverage relating to us or in relation to our associate Jinshang Consumer Finance in the past. In 2018, for example, several apartment management companies whom Jinshang Consumer Finance cooperated with experienced significant shortages of funds and, consequently, failed to fulfill certain obligations they owed to the consumers under the lease agreements. Some consumers initiated protests which captured the media's attention and exposed Jinshang Consumer Finance to the negative publicity, even though Jinshang Consumer Finance was not legally or contractually responsible for the financial losses these consumers suffered. For details on Jinshang Consumer Finance's risk management measures, please see "Risk Management – Risk Management in Relation to Jinshang Consumer Finance".

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. In particular, as we have no control over the operations of our associates, we cannot assure you that we can always achieve our expected investment gains or even prevent losses from our investment in them. As a result, our business, financial condition, results of operations, prospects and the value of your investment may be materially and adversely affected.

We have entered into outsourcing 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 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 from time to time arising out of our business operations.

We were involved in legal and other disputes arising from our ordinary course of business from time to time. In particular, as of the Latest Practicable Date, we were defendant in a pending litigation in relation to a bill-related dispute. This dispute relates to whether we are liable to a certain bank with respect to 98 bank acceptance bills. The plaintiff demands us to pay damages equal to the principal of relevant bills amounting to RMB927.6 million, together with interest incurred since the maturity date of the relevant bills, as well as attorney fees and court costs. We believe that the plaintiff's case has no merit and we will vigorously defend against the allegation. As advised by the legal advisor we engaged in this case and based on the evidence currently available, we believe it is highly unlikely for us to receive unfavorable ruling in this case. Furthermore, King & Wood Mallesons, our PRC legal advisor, is of the view that as the total amount in dispute accounts for a small percentage of our total assets and net assets in our latest audited financial statement, this case has no material adverse effect on our operations. For more details, please see "Business – Legal and Administrative Proceedings". However, litigation is inherently uncertain and we cannot guarantee the outcome of this litigation or any other litigation in which we are involved. If we are found responsible for the plaintiff's damages, we may sue other counterparties in the relevant bill financing transactions to recover our damages, but we cannot assure you that we would be successful in doing so. Furthermore, we may encounter disputes in relation to misappropriation or unauthorized use of our business names or service brand names, or disputes in relation to misappropriation, unauthorized use or registration of our trademarks.

Also, we cannot guarantee that any existing or potential investigations will not cause a material adverse effect, or that any future legal disputes we confront will not result in damages to our reputation, additional operational costs or a diversion of our resources and management's attention from our business operations, and our business, financial condition and results of operations may be materially and adversely affected.

We may not be able to 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 suspicious and large transactions to the relevant regulatory authorities. In light of 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. Please see "Risk Management – Legal and Compliance Risk Management" and "Supervision and Regulation – Ownership and Shareholder Restrictions – Anti-money Laundering Regulation".

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, customers or other third parties, which could subject us to financial losses, third party claims, regulatory actions or reputational damage. 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.

During the Track Record Period and up to the Latest Practicable Date, we were subject to administrative penalties due to one employee's misconduct in relation to the use of invoices and improper reimbursement of personal expenses, and the failure of certain employees to strictly follow regulatory requirements in conducting due diligence investigation before extending credits to certain borrowers and in supervising the proper use of proceeds after fund disbursement. For details, please see "Business – Legal and Administrative Proceedings – Regulatory Inspections and Proceedings – Administrative Penalties". We cannot assure you that we will not encounter similar incidents in the future. Should any of the above mentioned factors occur, our business, financial condition and results of operations could be materially and adversely affected. During the Track Record Period and up to the Latest Practicable Date, alleged illegal activities and other misconduct committed by our former employees included embezzlement, bribery, and improper reimbursement of personal expenses. See "Business – Legal and Administrative Proceedings – Employee Non-compliance". Furthermore, the illegal activities or misconduct of our customers or other third parties connected to us, such as fraud, theft and stealing of customer information, may damage our reputation or cause us to incur economic losses.

Furthermore, the illegal activities, misconduct or improper behavior of our customers or other third parties, whether or not they are related to us, may damage our reputation or cause us to incur economic losses. For instance, we were exposed to negative media coverage when some internet users disseminated improper advertising materials on one of our debit card products issued prior to the Track Record Period. These improper advertisements led some members of the public to question the legality of our products, even though we complied with the applicable laws and regulations in all material respects during the issuance and distribution of this product. As we have no control over these and other 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 ensure and 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. For more details, please see "Business – Personal Data and Privacy Protection". Although we strive to implement our data protection policy 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 provided to us by our 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 that we 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. We face competition with PRC and foreign commercial banks in all of our principal lines of business. We principally compete with large state-owned commercial banks, nationwide joint-stock commercial banks, rural commercial banks and other city commercial banks. On July 1, 2013, the General Office of the State Council issued the Guidance Letter Regarding Financial Support for Promoting Economic Restructuring and Transformation (國務院辦公廳關於金融支持經濟結構調整和轉型升級的指導意見), or the Guidance Letter. The Guidance Letter, among other things, encourages investments by private sector capital in financial institutions and the establishment of privately-owned banks. The Guidance Letter provides a policy direction aimed at increasing involvement by private sector capital in the financial industry in China. We may, therefore, face competition from privately-owned banks in the future.

Competition between us and foreign financial institutions may intensify 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 Shanxi Province and China. We expect to see greater competition from foreign financial institutions in the future. We compete with our competitors for substantially the same customers on loans, deposits and fee- and commission-based products and services. 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. We also may not be able to carry out our capital replenishment plans as effectively as other competitors do.

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 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.

Furthermore, China's traditional banking institutions are also facing new challenges from innovations in financial products and technology, such as online wealth management products, third party online payment platforms and Internet financing service platforms. Online wealth management products have attracted a large number of retail banking customers. The growing popularity of third-party online payment platforms, such as Alipay and Tenpay, are challenging bank profits. With the rapid growth in e-commerce, Chinese customers are now paying for a wide range of goods and services online. Although a portion of online transactions are paid for by credit or debit cards issued by banks, third-party payment solutions are becoming popular in China, indicating that Internet companies are playing an increasingly important role in China's payment system. Like other commercial banks, we also face competition from other types of Internet finance, such as P2P lending and crowd funding. We cannot assure you that we will successfully meet the challenges presented by such Internet financing alternatives, and, in the event that we are unable to effectively respond to the changes in the competitive environment of the PRC banking industry, our business, financial condition and results of operations could be materially and adversely affected.

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 the Internet-based financial service industry may materially and adversely affect our business, financial condition, results of operations and prospects. Please also see the section headed "Industry Overview – Industry Trends and Business Drivers – Challenges and Opportunities for Banks Arising from Internet Finance".

The PRC banking industry is highly regulated, and we are susceptible to changes in regulation 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, 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 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, including its predecessor, the CBRC, 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 relevant regulations, please see "Industry Overview – Industry Trends 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. 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, 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. Due to new risks caused by overcapacity, local government debts and overall economic slowdown, we cannot assure you that the banking industry in the PRC is free from systemic risks. The recent slowdown in China's economic growth has led to a rise in non-performing loans in the banking industry. In the event that we cannot adapt to such changes, our business, financial condition and results of operations could be materially and adversely affected.

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, 2018, our financial assets sold under repurchase agreements, deposits from banks and other financial institutions and placements from banks and other financial institutions accounted for 5.3% 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, please also see the section headed "– 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 are generally under-developed, and as such, databases are not able to provide complete credit information on certain credit applicants. Without complete, accurate and reliable information, and until the full implementation and effective operation of comprehensive national credit databases with respect to corporate and individual borrowers, we will have to 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. Moreover, customary loan contracts in China may not contain the same types of financial and other covenants as other countries or regions, which may prevent us from effectively monitoring changes in the credit standing of our customers in a timely manner. 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 CBRC Notice on Enhanced Management of Pledge of Equity Interest in 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 included the Voting Restrictions in our Articles of Association, which was approved by CBRC Shanxi Office on March 27, 2014. 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 the 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, please see "Supervision and Regulation – Ownership and Shareholder Restrictions – 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 collateral. 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 major 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 Management of Commercial Bank Equity (《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 CBIRC 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.

The transition from business tax to value-added tax may adversely affect our financial condition and results of operations.

PRC Government had been progressively implementing a pilot reform for the transition from business tax to value-added tax in certain regions and for certain industries since 2012. Pursuant to the Notice on the Full Implementation of Pilot Program for Transition from Business Tax to Value-added Tax (《關於全面推開營業税改徵增值税試點的通知, Cai Shui [2016] No. 36) issued by MOF and SAT on March 23, 2016, the pilot program has applied to the financial industry, among others, since May 1, 2016. We started to calculate and pay value-added tax instead of business tax on the same date.

In addition, the MOF and the SAT issued a Notice on Value-added Tax Policies for Financial, Real Estate Development, Education Ancillary Service and Other Services (《關於明確金融、房地產開發、教育輔助服務等增值税政策的通知》, Cai Shui [2016] No. 140) on December 21, 2016, the Supplemental Notice on Value-added Tax Policies on Asset Management Products (《關於資管產品增值税政策有關問題的補充通知》, Cai Shui [2017] No. 2) on January 6, 2017, and Notice on Issues Relating to Value-added Tax on Asset Management Products (《關於資管產品增值税有關問題的通知》, Cai Shui [2017] No. 56) on June 30, 2017, which may cause significant impact on the value-added tax exposure of financial investment and asset management business of financial enterprises. Given that we have assets in financial investments and that we are managing a number of wealth management products, our operating results may be affected accordingly.

Due to the different basis of value-added tax and business tax, the revenue recognized under the value-added tax regime may be slightly less than that under the business tax regime if total revenue and other tax liabilities remain unchanged. In accordance with the policies on transition from business tax to value-added tax of the financial industry, there is in general a rise in tax burdens on banks from the transition. The increase in tax rate and the change in the basis of taxation will affect our tax burden to a certain extent. Furthermore, as such transition from business tax to value-added tax has been implemented since May 2016, PRC Government may further supplement and amend the relevant policies and rules, and different interpretations may be applied during the implementation of these policies and rules. Therefore, uncertainties remain as to the tax treatment of our income and expenses under the new value-added tax regime. Hence, implementation of measures for transition from business tax to value-added tax may adversely affect our financial condition and results of operations.

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

We established a five-level loan classification system in accordance with the guidelines set forth by the CBIRC. The five categories are normal, special mention, substandard, doubtful and loss. 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, please see "Assets and Liabilities – Assets – Loans and Advance to Customers – 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

China's economic, political and social conditions, government policies, as well as the global economy may continue to affect our business.

All 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 6.7%, 6.9% and 6.6% in 2016, 2017, and 2018, respectively.

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

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 personnel 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 personnel reside within the PRC, and substantially all their assets are located 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 personnel 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 "**Arrangement**"). Under the 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 Arrangement, a choice of court agreement in writing refers to an agreement in writing entered into between parties after the effective date of the 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.

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

The United States has enacted rules, commonly referred to as "FATCA," that generally impose a withholding regime with respect to "withholdable payments," generally U.S. source payments of dividends and interest and, beginning in 2019, gross proceeds from the disposition of property that can produce U.S. source payments, and, in the future, may impose such withholding on "foreign passthru payments" made by a "foreign financial institution" (an "**FFI**"), unless such FFI complies with certain diligence and reporting requirements. Under current guidance, the term "foreign passthru payment" is not defined and it is therefore not clear whether or to what extent payments on the H Shares would be considered foreign passthru payments. Withholding on foreign passthru payments would not be required with respect to payments on the H Shares made before January 1, 2019.

The United States has entered into an intergovernmental agreement (an "**IGA**") with Hong Kong (the "**Hong Kong IGA**"), and has agreed in substance with the PRC to an IGA (the "**PRC IGA**"), which potentially modifies the FATCA withholding regime described above. Under the FATCA rules and the IGAs, we and our subsidiaries that are treated as FFIs will be subject to the diligence and reporting obligations under FATCA or an applicable IGA. In order to avoid the withholding regime described above, we and each of our subsidiaries intend to comply with the diligence and reporting requirements under FATCA in accordance with relevant laws and regulations, which may affect how we structure our operations and conduct our business.

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.

All of our revenue is denominated in Renminbi, which is not a fully freely-convertible currency. A portion of our revenues must be converted into other currencies in order to meet our foreign currency obligations. For example, we need to obtain foreign currency to make payments of declared dividends, if any, on our 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 2012 and 2014. 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 currency 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, please 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 could result in a widespread health crisis that could materially and adversely affect the economy and financial markets. Acts of war or terrorism may also injure our employees, cause loss of life, disrupt our business network or destroy our markets. 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 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.

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.

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 substantially higher than the pro forma adjusted net tangible assets per Share as of December 31, 2018. Therefore, purchasers of our H Shares in the Global Offering may experience an immediate dilution in pro forma 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 dilution of their shareholding percentage if the Over-allotment Option is exercised or if we obtain additional capital in the future through equity offerings other than on a pro rata basis to our then existing Shareholders.

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 – Dividend and Dividend Policy". We cannot guarantee if and when we will pay dividends in the future.

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 developments 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 Ordinance, the Securities and Futures (Stock Market Listing) Rules 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.

APPROVAL OF THE CBIRC AND THE CSRC

Our Bank obtained approval letters from CBIRC Shanxi Office and the CSRC on January 4, 2019 and June 4, 2019, respectively, for the submission of the application to list our H Shares on the Hong Kong Stock Exchange and for the Global Offering, respectively. In granting such approval, neither the CSRC nor the CBIRC Shanxi Office 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 86,000,000 H Shares initially offered and the International Offering of 774,000,000 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 July 11, 2019, 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 Representatives, the Joint

Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisors 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.

Details of the structure of the Global Offering, including its conditions, are set out in "Structure of the Global Offering" in this prospectus, and the procedures for applying for the H Shares are set out in "How to Apply for Hong Kong Offer Shares" of this prospectus and on the relevant Application Forms.

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 July 11, 2019 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 July 17, 2019. 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 which may be issued pursuant to the Global Offering and upon the exercise of the Over-allotment Option. 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 the 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 July 18, 2019. Except for our pending application to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the H Shares, 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.

The H Shares will be traded in board lot of 1,000 H Shares. The stock code of the H Shares is 2558.

Under section 44B(1) of the Companies Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the H Shares on the Hong Kong Stock Exchange is rejected before the expiration of three weeks from the date of the closing of the subscription application, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to the Bank by or on behalf of the Hong Kong Stock Exchange.

COMPLIANCE WITH THE LISTING RULES

We will comply with applicable laws and regulations in Hong Kong (including the Listing Rules) and any other undertakings which have been given in favor of the Hong Kong Stock Exchange from time to time. If the Listing Committee finds that there has been a breach by us of the Listing Rules or such other undertakings which may have been given in favor of the Hong Kong Stock Exchange from time to time, the Listing Committee may instigate cancellation or disciplinary proceedings in accordance with the Listing Rules.

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 advisors 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 Representatives, the Joint Sponsors, 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, disposal 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 in "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 maintained in Hong Kong. We will maintain the principal register of members at our head office 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.

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 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. 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 RMB0.88000 to HK$1.00, the median rate set by PBoC for foreign exchange transactions prevailing on June 20, 2019, (ii) the translations between Renminbi and U.S. dollars were made at the rate of RMB6.8805 to US$1.00, the median rate set by PBoC for foreign exchange transactions prevailing on June 20, 2019 and (iii) the translations between U.S. dollars and Hong Kong dollars were made at the rate of HK$7.8259 to US$1.00, the noon buying rate in effect on June 14, 2019 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, the English version of this prospectus shall prevail. However, the translated English names of the PRC nationals, entities, departments, facilities, certificates, titles, laws, regulations (including the Bank's subsidiary) 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 resident 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. YAN Junsheng (閻俊生), an executive Director and the chairman of the Board of Directors, who is an ordinarily resident in the PRC, and Ms. YEUNG Ching Man (楊靜文), one of the joint company secretaries of our Bank, who is an ordinarily resident in Hong Kong. Although Mr. YAN Junsheng 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 of time 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 for 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 of time;

(iv) our Bank has appointed Lego Corporate Finance 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 the 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, the Companies 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 Ms. HAO Qiang and Ms. YEUNG Ching Man as the joint company secretaries. Ms. HAO Qiang has been a vice president of our Bank since November 2017 and served as the secretary to the Board of our Bank from June 2017 to April 2019. She has extensive knowledge about our Bank's business operations and corporate culture and has extensive experience in matters concerning the Board and our Bank's corporate governance. For more details of Ms. HAO Qiang's biography, see "Directors, Supervisors and Senior Management – Senior Management". Although our Bank believes, having regard to Ms. HAO Qiang's past experience in handling administrative and corporate matters, that she has a thorough understanding of our Bank and the Board, Ms. HAO Qiang does not possess the requisite qualifications as required by Rule 3.28 of the Listing Rules. Therefore, our Bank has appointed Ms. YEUNG Ching Man, who is a Hong Kong resident and possesses the qualification 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. YEUNG Ching Man'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. YEUNG Ching Man, one of the joint company secretaries of our Bank who satisfies the requirements under Rule 3.28 of the Listing Rules, will assist Ms. HAO Qiang so as to enable her to discharge her duties and responsibilities as a joint company secretary of our Bank. Given Ms. YEUNG Ching Man's relevant experiences, she will be able to advise both Ms. HAO Qiang 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. YEUNG Ching Man ceases to meet the requirements under Rule 3.28 of the Listing Rules or otherwise ceases to serve as a joint company secretary;

(iii) Ms. HAO Qiang, one of the joint company secretaries of our Bank, will be assisted by Ms. YEUNG Ching Man, for a period from the Listing Date to the end of three years after the Listing Date, which should be sufficient for her to acquire the requisite knowledge and experience under Rule 3.28 of the Listing Rules;

(iv) our Bank will ensure that Ms. HAO Qiang has access to the relevant trainings and support to enable her to familiarize herself with the Listing Rules and the duties required of a company secretary of a Hong Kong listed company, and Ms. HAO Qiang has undertaken to attend such trainings;

(v) Ms. YEUNG Ching Man will communicate with Ms. HAO Qiang 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. YEUNG Ching Man will work closely with, and provide assistance to Ms. HAO Qiang with a view to discharging her 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, Ms. HAO Qiang and Ms. YEUNG Ching Man 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 Ms. YEUNG Ching Man and Ms. HAO Qiang 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. YEUNG Ching Man will act as a joint company secretary and provide assistance to Ms. HAO Qiang. The waiver is valid for an initial period of three years commencing from the Listing Date, and will be revoked immediately if Ms. YEUNG Ching Man ceases to provide assistance and guidance to Ms. HAO Qiang. Prior to the expiry of the initial three-year period, our Bank will re-evaluate the qualifications and experiences of Ms. HAO Qiang. Upon the determination of our Bank that no on-going assistance to Ms. HAO Qiang is necessary, our Bank will demonstrate to the Hong Kong Stock Exchange that, with the assistance of Ms. YEUNG Ching Man over such three-year period, Ms. HAO Qiang 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 in industry sectors in accordance with its management reports based on the CBIRC classification in Note 18(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 authorised 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 CBIRC and PBoC. 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 CBIRC and PBoC. Our Bank believes that the CBIRC and PBoC 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 CBIRC and PBoC 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 CBIRC and PBoC regulations. As a result, our Bank proposes to disclose the information in compliance with the CBIRC and PBoC regulations in this regard, instead of strictly following the disclosure regime provided for under the Banking (Disclosure) Rules, which will result in the compilation of similar 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 CBIRC and PBoC 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 CBIRC and PBoC.

WAIVER IN RELATION TO PUBLIC FLOAT

Rules 8.08(1) of the Listing Rules require that there must be an open market in the securities for which listing is sought and that a sufficient public float of an issuer's listed securities shall be maintained. This normally means that at least 25% of the issuer's total issued share capital must at all times be held by the public.

Under Rule 8.08(1)(d) of the Listing Rules, the Hong Kong Stock Exchange may accept, at its discretion, a lower public float percentage of between 15% and 25%, in the case of an issuer with an expected market capitalization at the time of listing of over HK$10 billion.

The Bank has applied to for, and the Hong Kong Stock Exchange has agreed to exercise, its discretion under Rule 8.08(1)(d) of the Listing Rules to accept a lower public float percentage of our Bank of the higher of:

(a) 15.01% of the total issued share capital of the Bank; or

(b) such percentage of H Shares of the total issued share capital of the Bank to be held by the public after the exercise of the Over-allotment Option.

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

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

(b) the quantity and scale of the H Shares would enable the market to operate properly with the lower percentage of the public float upon Listing;

(c) the Bank will implement appropriate measures and mechanisms to ensure continual maintenance of the minimum percentage of public float prescribed by the Hong Kong Stock Exchange;

(d) the Bank will make appropriate disclosure of the lower percentage of public float in this prospectus; and

(e) the Bank will confirm sufficiency of public float in its annual reports after the Listing.

WAIVER IN RELATION TO CONTINUING CONNECTED TRANSACTIONS

Our Bank has entered into, and expects to continue after the Listing, certain transactions which will constitute non-exempt continuing connected transactions under the Listing Rules upon the Listing. Our Bank has applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the announcement requirement and (if applicable) independent shareholders' approval requirement under Chapter 14A of the Listing Rules in respect of these non-exempt continuing connected transactions. For details, please see "Connected Transactions – Non-Exempt Continuing Connected Transactions".

Name	Residential Address	Nationality
Executive Directors		
Mr. YAN Junsheng (閻俊生) *(Chairman)*	No. 23, Unit 1 Building 5, Lihuayuan Community Changfeng West Street Wanbailin District Taiyuan Shanxi Province the PRC	Chinese
Mr. TANG Yiping (唐一平)	Room 46, Floor 23, Unit 1 Building 15, Lihuayuan Community Changfeng West Street Wanbailin District Taiyuan Shanxi Province the PRC	Chinese
Mr. WANG Peiming (王培明)	Room 1901, Unit 1 Building No. 7 Xuefu Yuan Sports Road Xiaodian District Taiyuan Shanxi Province the PRC	Chinese
Mr. RONG Changqing (容常青)	Room 35, Floor 23, Unit 1 Building 10, Lihuayuan Community Changfeng Street West Wanbailin District Taiyuan Shanxi Province the PRC	Chinese

Name	Residential Address	Nationality
Non-executive Directors		
Mr. LI Shishan (李世山)	Room 1602, Unit 3, Building 6 Guangxin Guoxin Jiayuan No. 265 Zhonghuan South Street Taiyuan Shanxi Province the PRC	Chinese
Mr. XIANG Lijun (相立軍)	No. 704, Unit 6, Floor 7, Building 1 Courtyard 10 You'anmennei Inner Street Xicheng District Beijing the PRC	Chinese
Mr. LIU Chenhang (劉晨行)	No. 6, Floor 3, Building 6 No. 95 Taoyuan South Road Yingze District Taiyuan Shanxi Province the PRC	Chinese
Mr. LI Yang (李楊)	No. 12 Jiefang West Street Changzhi Shanxi Province the PRC	Chinese
Mr. WANG Jianjun (王建軍)	No. 33, Unit 3, Building 26 Section 11 QinfangYuan Community Houbao Town Xiangyuan County Changzhi Shanxi Province the PRC	Chinese

Name	Residential Address	Nationality
Independent Non-executive Directors		
Mr. JIN Haiteng (金海騰)	Room 202, Unit 1, Building 16 Renshou Hill West Lake District Hangzhou Zhejiang Province the PRC	Chinese
Mr. SUN Shihu (孫試虎)	Room 202, Unit 4, Building 8 Fengrong Yuan Xicheng District Beijing the PRC	Chinese
Mr. WANG Liyan (王立彥)	No. 1003, Unit 5, Building 1 Courtyard 11 Andingmen Outer Street Dongcheng District Beijing the PRC	Chinese
Mr. DUAN Qingshan (段青山)	No. 365 Yushu Linfeng Haidian District Beijing the PRC	Chinese
Mr. SAI Zhiyi (賽志毅)	Room 202, Unit 2, Building 16 Yinfeng Mountain Villa Shungeng Road Shizhong District Jinan Shandong Province the PRC	Chinese
Mr. YE Xiang (葉翔)	16B, Tower 2 No. 8 Marina South Ap Lei Chau Drive Hong Kong	Chinese

Name	Residential Address	Nationality
SUPERVISORS		
Mr. XIE Liying (解立鷹)	Room 0302, Unit 1, Tower A Boya Shuyuan No. 29 Pingyang South Road Xiaodian District Taiyuan Shanxi Province the PRC	Chinese
Mr. BI Guoyu (畢國鈺)	No. 1602, Unit 1 Building 30 Jinmei Group Jiguan Jianyuan East Part Jincheng Shanxi Province the PRC	Chinese
Ms. XU Jin (徐瑾)	Room 404, Unit 2 Building 4 Olympic Garden Xiyuan South Road Wanbailin District Taiyuan Shanxi Province the PRC	Chinese
Mr. XIA Guisuo (夏貴所)	No. 2-16 No. 6 Jiefang South Road Yingze District Taiyuan Shanxi Province the PRC	Chinese

Name	Residential Address	Nationality
Mr. WEN Qingquan (溫清泉)	1-0702 Yihe Youpan No. 118 Xinjian South Road Yingze District Taiyuan Shanxi Province the PRC	Chinese
Mr. GUO Zhenrong (郭振榮)	No. 2004, Building 2 Jianye Community No. 116 Twin Towers West Street Yingze District Taiyuan Shanxi Province the PRC	Chinese
Mr. LIU Shoubao (劉守豹)	No. E45, Xishan Meishu Guan Hanhe Road Haidian District Beijing the PRC	Chinese
Mr. WU Jun (吳軍)	No. 1303, Building 117 Wangjing Garden Chaoyang District Beijing the PRC	Chinese
Mr. LIU Min (劉旻)	No. 2002, Unit 3 Building 5 Runyuan Community Yingze District Taiyuan Shanxi Province the PRC	Chinese

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

Joint Sponsors	**CCB International Capital Limited** 12/F, CCB Tower 3 Connaught Road Central Central, Hong Kong
	China International Capital Corporation Hong Kong Securities Limited 29/F, One International Finance Centre 1 Harbour View Street Central, Hong Kong
	CMB International Capital Limited 45/F, Champion Tower 3 Garden Road Central, Hong Kong
Financial Advisor	**Shanxi Securities International Capital Limited** Unit A, 29/F, Tower 1, Admiralty Center 18 Harcourt Road Admiralty, Hong Kong
Joint Representatives	**CCB International Capital Limited** 12/F, CCB Tower 3 Connaught Road Central Central, Hong Kong
	China International Capital Corporation Hong Kong Securities Limited 29/F, One International Finance Centre 1 Harbour View Street Central, Hong Kong
	CMB International Capital Limited 45/F, Champion Tower 3 Garden Road Central, Hong Kong

Joint Global Coordinators	**CCB International Capital Limited** 12/F, CCB Tower 3 Connaught Road Central Central, Hong Kong
	China International Capital Corporation Hong Kong Securities Limited 29/F, One International Finance Centre 1 Harbour View Street Central, Hong Kong
	CMB International Capital Limited 45/F, Champion Tower 3 Garden Road Central, Hong Kong
	AMTD Global Markets Limited 23/F – 25/F Nexxus Building 41 Connaught Road Central Hong Kong
Joint Bookrunners	**CCB International Capital Limited** 12/F, CCB Tower 3 Connaught Road Central Central, Hong Kong
	China International Capital Corporation Hong Kong Securities Limited 29/F, One International Finance Centre 1 Harbour View Street Central, Hong Kong
	CMB International Capital Limited 45/F, Champion Tower 3 Garden Road Central, Hong Kong
	AMTD Global Markets Limited 23/F – 25/F Nexxus Building 41 Connaught Road Central Hong Kong

Shanxi Securities International Limited
Unit A, 29/F, Tower 1, Admiralty Centre
18 Harcourt Road
Admiralty, Hong Kong

SPDB International Capital Limited
Suites 3207-3212,
32/F, One Pacific Place
88 Queensway
Hong Kong

ABCI Capital Limited
11/F, Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

ICBC International Capital Limited
37/F ICBC Tower
3 Garden Road
Hong Kong

Haitong International Securities Company Limited
22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Joint Lead Managers

CCB International Capital Limited
12/F, CCB Tower
3 Connaught Road Central
Central, Hong Kong

China International Capital Corporation Hong Kong Securities Limited
29/F, One International Finance Centre
1 Harbour View Street
Central, Hong Kong

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

AMTD Global Markets Limited
23/F – 25/F Nexxus Building
41 Connaught Road Central
Hong Kong

Shanxi Securities International Limited
Unit A, 29/F, Tower 1, Admiralty Centre
18 Harcourt Road
Admiralty, Hong Kong

SPDB International Capital Limited
Suites 3207-3212,
32/F, One Pacific Place
88 Queensway
Hong Kong

ABCI Securities Company Limited
10/F, Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

ICBC International Securities Limited
37/F ICBC Tower
3 Garden Road
Hong Kong

Haitong International Securities Company Limited
22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Co-Lead Manager

Head & Shoulders Securities Limited
Room 2511, 25/F, Cosco Tower
183 Queen's Road Central
Hong Kong

I Win Securities Limited
Room 1916, Hong Kong Plaza
188 Connaught Road West
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:* **King & Wood Mallesons** 17th Floor, One ICC Shanghai ICC 999 Middle Huai Hai Road, Xuhui District Shanghai, the PRC
Legal Advisors to the Joint Sponsors and the Underwriters	*As to Hong Kong and United States laws:* **Freshfields Bruckhaus Deringer** 55th Floor, One Island East Taikoo Place Quarry Bay Hong Kong *As to PRC laws:* **Haiwen & Partners** 20th Floor, Fortune Financial Center 5 Dong San Huan Central Road Chaoyang District Beijing, the PRC
Reporting Accountants and Auditor	**KPMG** *Certified Public Accountants* 8th Floor, Prince's Building 10 Chater Road, Central Hong Kong
Compliance Advisor	**Lego Corporate Finance Limited** Room 1601, 16/F, China Building 29 Queen's Road Central Hong Kong
Receiving Bank	**Bank of China (Hong Kong) Limited** 1 Garden Road Hong Kong

Registered Address and Address of Head Office	No. 59 Changfeng Street Xiaodian District Taiyuan Shanxi Province, the PRC
Principal Place of Business in Hong Kong	40th Floor, Sunlight Tower No. 248 Queen's Road East Wanchai Hong Kong
Website Address	**www.jshbank.com** *(The contents of the website do not form a part of this prospectus)*
Joint Company Secretaries	Ms. HAO Qiang (郝強) No. 6, Unit 1, ICBC Dorm Xinghualing District Taiyuan Shanxi Province the PRC Ms. YEUNG Ching Man (楊靜文) *(CPA)* 40th Floor, Sunlight Tower No. 248 Queen's Road East Wanchai Hong Kong
Authorized Representatives	Mr. YAN Junsheng (閻俊生) No. 23, Unit 1 Building 5, Lihuayuan Community Changfeng Street West Wanbailin District Taiyuan Shanxi Province the PRC Ms. YEUNG Ching Man (楊靜文) *(CPA)* 40th Floor, Sunlight Tower No. 248 Queen's Road East Wanchai Hong Kong

Board Committees

Development and Strategy Committee
Mr. YAN Junsheng *(Chairperson)*
Mr. JIN Haiteng
Mr. TANG Yiping
Mr. LI Shishan
Mr. DUAN Qingshan

Audit Committee
Mr. WANG Liyan *(Chairperson)*
Mr. SAI Zhiyi
Mr. LIU Chenhang
Mr. SUN Shihu
Mr. YE Xiang

Risk Management Committee
Mr. SAI Zhiyi *(Chairperson)*
Mr. JIN Haiteng
Mr. TANG Yiping
Mr. WANG Jianjun
Mr. DUAN Qingshan

Related Parties Transactions Control Committee
Mr. JIN Haiteng *(Chairperson)*
Mr. SUN Shihu
Mr. WANG Peiming
Mr. RONG Changqing
Mr. WANG Liyan

Nomination, Remuneration and HR Committee
Mr. DUAN Qingshan *(Chairperson)*
Mr. JIN Haiteng
Mr. YAN Junsheng
Mr. XIANG Lijun
Mr. SAI Zhiyi

Consumer Rights Protection Committee
Mr. SUN Shihu *(Chairperson)*
Mr. WANG Liyan
Mr. TANG Yiping
Mr. LI Yang
Mr. SAI Zhiyi

H Share Registrar	**Computershare Hong Kong Investor Services Limited** Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East Wan Chai 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 Financial Advisor, the Joint Bookrunners, the Underwriters or any other party involved in the Global Offering and no representation is given as to its accuracy. Accordingly, such information should not be unduly relied upon. Our Directors confirm that, after taking reasonable care, as of the Latest Practicable Date, there has been no material adverse change in the market information presented in this section.

NATIONAL AND REGIONAL ECONOMY

China's Economy

Over the last forty years since the Chinese economic reform, China has been one of the world's fastest growing economies and has become the world's second largest economy since 2010. According to the NBS, China's GDP increased at a CAGR of 8.9% from RMB64.1 trillion in 2014 to RMB90.0 trillion in 2018. China's real GDP growth rate was 6.6% in 2018. Meanwhile, China's GDP per capita also grew steadily at a CAGR of 8.3% from RMB47,005 in 2014 to RMB64,644 in 2018. With the rapidly growing economy, RMB-denominated loans and RMB-denominated deposits of PRC financial institutions have increased at a CAGR of 13.7% and 11.7%, respectively, from December 31, 2014 to December 31, 2018.

Shanxi Province's Economy

Shanxi Province is located in the North China, bordering Inner Mongolia, Shaanxi, Henan and Hebei. It has abundant natural resources and a comprehensive mix of industries, with a particular strength in the coal and steel industries. Based on the advantages of the energy industry, Shanxi Province has deepened its transformation in recent years and actively promoted economic structural changes. As a result, the economic development of Shanxi Province has rebounded from the second half of 2016. According to the NBS, from 2013 to 2017, the GDP of Shanxi Province increased from RMB1,266.5 billion to RMB1,552.8 billion, with a CAGR of 5.2%. In 2018, the GDP of Shanxi Province further increased to RMB1,681.8 billion and the real GDP growth rate of Shanxi Province was 6.7%, which continued the trend of recovery since the second half of 2016.

Shanxi Province's economy has benefited and is expected to continue to benefit from the implementation of the following PRC national strategies and policies:

– In August 2018, the NDRC issued the *Opinions on Supporting the Cooperation Between Shanxi Province and the Beijing-Tianjin-Hebei Region to Realize Joint Development* (《關於支持山西省與京津冀地區加強協作實現聯動發展的意見》). It promotes the deep integration of Shanxi Province and the Beijing-Tianjin-Hebei region, the joint development and joint governance of the ecological environment, clean energy supply, cooperation in scientific and technological innovation, industrial development collaboration, infrastructure interconnection, medical education resources sharing. It aims to stimulate the development of Shanxi Province and Beijing-Tianjin-Hebei, achieve a mutually beneficial partnership, and to develop Shanxi Province as a strategic support belt for Beijing-Tianjin-Hebei contributing to the central and western regions;

– In September 2017, the State Council issued the *Opinions on Supporting Shanxi Province's Further Reform on Transforming and Developing Its Resource-based Economy* (Guofa [2017] No. 42) (《關於支持山西省進一步深化改革促進資源型經濟轉型發展的意見》 (國發[2017]42號)), which designated Shanxi Province as the demonstration zone of the transformation of the resource-based economy in China and clarified the basic principles, main objectives and key tasks for the economy transformation of Shanxi Province, including improving the industry upgrading, implementing the innovation-driven development strategies in depth, deepening the reform of state-owned enterprises and stimulating the vitality of market players, while strengthening the reform of the ecological civilization system to build a beautiful Shanxi;

– In July 2016, the NDRC issued the *13th Five-Year Development Plan of the service industry in Shanxi Province* (《山西省"十三五"服務業發展規劃》), targeting city commercial banks within Shanxi Province. It encourages city commercial banks within Shanxi Province to expand the business and network coverage, and to gradually grow into modern commercial banks that are deeply rooted in the local market, operating stably while providing leading services. In particular, it also promotes our Bank to enrich its capital scale, optimize its governance structure, and achieve diversified development, to build our Bank as a modern joint-stock bank with strong competitiveness and influence; and

– In June 2015, Shanxi Provincial Committee of the Communist Party of China and Shanxi Government issued the Opinions on *Promoting the Financial Revitalization of Shanxi* (Jinfa [2015] No. 9) (《關於促進山西金融振興的意見》(晉發[2015]9號)) which proposed to enlarge and strengthen the development of our Bank. It plans to expand the business areas of insurance, funds and financial leasing of our Bank to form an integrated business advantage. It encourages our Bank to actively strive for the issuance and underwriting qualifications for debt financing instruments such as medium-term notes, short-term financing and mid-term debt. It also encourages our Bank to accelerate the layout of outlets to achieve full coverage of outlets and cross-regional operations in the central cities of Shanxi Province. In addition, it encourages our Bank to introduce high-quality strategic investors, enrich capital and optimize corporate governance. This policy aims to build our Bank into a modern joint-stock bank with sufficient capital and strict internal control, which provides quality services efficiently and has strong competitiveness and influence.

The table below sets forth GDP, GDP per capita, per capita disposable income of urban households, fixed asset investments and total import and export volume of Shanxi Province for the years indicated.

	For the year ended December 31,					CAGR
	2013	2014	2015	2016	2017	(2013-2017)
GDP (in billions of RMB)	1,266.5	1,276.1	1,276.6	1,305.0	1,552.8	5.2%
GDP per capita (in RMB)	34,984.0	35,070.0	34,919.0	35,532.0	42,060.0	4.7%
Per capita disposable income of urban households (in RMB)	22,258.2	24,069.4	25,827.7	27,352.3	29,131.8	7.0%
Fixed asset investment (in billions of RMB)	1,103.2	1,235.5	1,407.4	1,419.8	604.1	N/A
Total import and export volume of goods (in millions of US$)	15.8	16.2	14.7	16.7	17.2	2.1%

Source: NBS

CHINA BANKING INDUSTRY

Overview

China's commercial banks have maintained its steady growth in the last decade. The following table sets forth certain information of China's commercial banks as of the dates or for the periods indicated.

	As of and for the year ended December 31,					
	2013	2014	2015	2016	2017	2018
	(in billions of RMB, except percentages)					
Total assets	118,799.0	134,797.8	155,825.7	181,688.4	196,783.4	209,963.8
Total liabilities	110,824.1	125,093.3	144,268.2	168,592.2	182,061.0	193,487.6
Net profit	1,418.0	1,554.8	1,592.6	1,649.0	1,747.7	1,830.2
Return on assets (%)	1.27	1.23	1.10	0.98	0.92	0.90
Allowance coverage ratio (%)	282.70	232.06	181.18	176.40	181.42	186.31
NPL ratio (%)	1.00	1.25	1.67	1.74	1.74	1.83

Source: CBIRC

The following table sets forth the total assets of different types of commercial banks in the PRC as of the dates indicated.

	As of December 31					
	2013	2014	2015	2016	2017	2018
	(in billions of RMB)					
Large commercial banks	65,600.5	71,014.1	78,163.0	86,598.2	92,814.5	98,353.4
Joint-stock commercial Banks	26,936.1	31,380.1	36,988.0	43,473.2	44,962.0	47,020.2
City commercial banks	15,177.8	18,084.2	22,680.2	28,237.8	31,721.7	34,345.9
Other types of commercial banks[1]	11,084.6	14,319.4	17,994.5	23,379.2	27,285.2	30,244.3
Total	**118,799.0**	**134,797.8**	**155,825.7**	**181,688.4**	**196,783.4**	**209,963.8**

Source: CBIRC

Note:

(1) Comprises rural commercial banks, privately-owned banks and foreign banks.

City Commercial Banks

After over 20 years of development, city commercial banks have become an important component in China's banking industry. There were altogether 134 city commercial banks in the PRC as of December 31, 2018. The total assets of PRC city commercial banks increased from RMB18.1 trillion as of December 31, 2014 to RMB34.3 trillion as of December 31, 2018, representing a CAGR of 17.4%. Total assets of all city commercial banks in China as a percentage of the total assets of all commercial banks increased from 13.4% as of December 31, 2014 to 16.4% as of December 31, 2018.

With in-depth understanding of local markets and close relationships with local customers, city commercial banks are generally well-positioned to capture opportunities and market trends in local areas. The following table sets forth certain information relating to city commercial banks in China as of the dates or for the periods indicated.

	As of and for the year ended December 31,					
	2013	2014	2015	2016	2017	2018
	(in billions of RMB, except percentages)					
Total assets	15,177.8	18,084.2	22,680.2	28,237.8	31,721.7	34,345.9
Total liabilities	14,180.4	16,837.2	21,132.1	26,404.0	29,534.2	31,825.4
Net profit	164.1	186.0	199.4	224.5	247.4	246.1
Return on assets (%)	–	1.12	0.98	0.88	0.83	0.74
Allowance coverage ratio (%)	–	249.33	221.27	219.89	214.48	187.16
NPL ratio (%)	0.88	1.16	1.40	1.48	1.52	1.79

Source: CBIRC

SHANXI PROVINCE'S BANKING INDUSTRY

The regional economic development has led to a steady growth in Shanxi Province's banking industry. According to the Shanxi Provincial Bureau of Statistics, as of December 31, 2018, the total deposits and loans of the financial institutions in Shanxi Province's banking industry were RMB3,534.0 billion and RMB2,525.6 billion, representing an increase of 8.8% and 12.4% as compared to December 31, 2017, respectively.

The tables below sets out certain information of different types of banking financial institutions in Shanxi Province as of December 31, 2018.

	As of December 31, 2018		
	Number of institutions	**Number of employees**	**Number of legal-person institutions[(4)]**
	(in billions of RMB, except number of institutions and employees)		
Large commercial banks	1,714	42,788	–
National development bank and policy banks	81	1,959	–
Joint-stock commercial banks	497	10,167	–
City commercial banks[(1)]	366	11,070	6
Small-sized rural financial institutions[(2)]	3,075	44,171	113
Other banking financial institutions[(3)]	1,389	11,643	85
Total	**7,122**	**121,798**	**204**

Source: PBoC Taiyuan Central Branch

Notes:

(1) Our Bank is categorized as a city commercial bank in the above table.

(2) Comprise rural commercial banks and rural credit cooperatives.

(3) Comprise postal savings banks, foreign banks, village and township banks, finance companies, trust companies and finance lease companies.

(4) Our Bank is categorized as a legal-person institution in the above table. The main difference between a "branch institution (分支機構)" and a "legal-person institution (法人機構)" is whether an entity is regarded as an independent legal person. According to PRC Commercial Banking Law (《中國商業銀行法》), branches of a commercial bank do not have "legal person" status and must conduct their businesses within the authorized scope of their head office. Meanwhile, the head office assumes civil liabilities on behalf of the branches. In Shanxi Province, the branches of large commercial banks (which are headquartered outside Shanxi Province) are not treated as legal persons, while commercial banks headquartered within Shanxi Province, including the Bank itself, bear civil liabilities independently and enjoy the autonomy to conduct their businesses within the limit of applicable laws and regulations.

The following table sets forth certain information relating to the city commercial banks in Shanxi as of the dates or for the years indicated.

	As of and for the year ended December 31,					
	2013	2014	2015	2016	2017	2018
	(in billions of RMB, except percentages)					
Total assets	239.9	268.9	321.7	395.4	466.9	503.2
Net profit	2.6	2.5	2.5	2.4	2.9	3.0
Return on assets (%)	1.17	0.97	0.83	0.67	0.68	0.61
Allowance coverage ratio (%)	439.16	361.43	263.6	207.9	185.3	172.0
NPL ratio (%)	0.93	1.36	1.65	1.72	1.67	1.90

Source: CBIRC Shanxi Office

The table below sets forth the total balance and average CAGR of the deposits and loans of financial institutions of Shanxi Province as of the dates indicated:

	As of December 31,					CAGR between
	2014	2015	2016	2017	2018	2014-2018
	(in billions of RMB)					
Total loans	1,655.9	1,857.5	2,035.7	2,257.4	2,525.6	11.1%
Total deposits	2,694.3	2,864.1	3,086.9	3,284.5	3,534.0	7.0%

Source: Shanxi Provincial Bureau of Statistics

COMPETITIVE LANDSCAPE

As a city commercial bank based in Shanxi Province, we mainly compete with other commercial banking institutions with operations in Shanxi Province. As of December 31, 2017, our total assets, total deposits from customers, total loans to customers and total equity were RMB206,869.8 million, RMB136,198.9 million, RMB97,189.7 million and RMB14,676.3 million, respectively. In 2017, our net profit was RMB1,230.5 million. According to PBoC, we ranked first among all city commercial banks headquartered in Shanxi Province in terms of total assets, total deposits from customers, total loans to customers and total equity as of December 31, 2017.

The table below sets forth key performance indicators of our Bank as compared to other five city commercial banks in Shanxi Province as of December 31, 2017.

	As of December 31, 2017					
	Total assets	Total liabilities	Total equity	Total loans	Total deposits	Total number of outlets
	(in millions of RMB, except for the number of outlets)					
Our Bank[(1)]	206,869.8	192,193.5	14,676.3	97,189.7	136,198.9	161
Bank A[(2)]	90,640.8	84,670.4	5,970.4	32,602.8	45,792.1	123
Bank B[(2)]	71,179.5	66,314.7	4,864.9	30,598.7	45,580.8	40
Bank C[(2)]	40,126.2	37,642.7	2,483.5	9,688.6	25,399.4	19
Bank D[(2)]	38,330.4	36,501.5	1,828.9	16,264.9	34,996.0	56
Bank E[(2)]	31,644.7	29,132.2	2,512.5	13,129.0	20,832.0	33

Sources: Annual report of respective banks

(1) Financial information prepared in accordance with IFRS and extracted from the Accountants' Report.

(2) Total assets, total liabilities, total loans and total deposits are unaudited and prepared by each bank according to CBIRC regulatory standard, which may differ from IFRS financial statement. Total equity was calculated by deducting total liabilities from total assets.

INDUSTRY TRENDS AND BUSINESS DRIVERS

Economic growth in China and Shanxi Province

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, Shanxi Province, as well as Taiyuan, experienced continuous expansion, primarily due to, among other things, favorable policy initiatives and government support on infrastructure construction, trade and economic development.

Shanxi Province directly benefited from various favorable policies promulgated by PRC Government. For example, the NDRC issued the *Opinions on Supporting Shanxi Province's Further Reform on Transforming and Developing Its Resource-based Economy* (Guofa [2017] No. 42) (《關於支持山西省進一步深化改革促進資源型經濟轉型發展的意見》(國發[2017]42號)) in September 2017, which clarifies six key tasks for promoting the resource-based economic transformation in Shanxi Province. In August 2018, the NDRC issued the Opinions on Supporting the Cooperation between Shanxi Province and the Beijing-Tianjin-Hebei Region to Realize the Linkage Development (《關於支持山西省與京津冀地區加強協作實現聯動發展的意見》) to promote the deep integration and coordinated development of Shanxi Province and the Beijing-Tianjin-Hebei region. As a result, Shanxi's economic development has rebounded since the second half of 2016 and continued to grow in 2017 and 2018, which further led to a continuous growth of the banking industry of Shanxi Province. We believe that such favourable policies have been instrumental in the economic growth of Shanxi Province and Taiyuan, and the current and future economic conditions of Shanxi Province and Taiyuan have affected and will continue to affect the business, results of operations and financial condition of the banks in Shanxi Province, including our Bank.

We are of the view that the economy of Shanxi Province will keep growing in the near future, resulting in a continued increase in market demand for banking products and services, including the products and services of our corporate banking, retail banking and financial markets businesses. Please also see the section headed "Business – Our Competitive Strengths" and "Risk Factors – 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".

Increasingly Importance of City Commercial Banks in China

Unlike large commercial banks and nationwide joint-stock commercial banks, city commercial banks are generally permitted to provide banking services only within certain geographic regions. Guided by policies issued by relevant regulatory authorities, city commercial banks should continue to pursue differentiating and distinctive development strategies, take full advantage of a fast decision-making process and flexible operation mechanism, and focus on providing a wider range of financial services to micro and small enterprises together with urban and rural residents in the local areas.

In recent years, city commercial banks have been strengthening their capital base through the introduction of strategic investors and initial public offerings. In addition, some city commercial banks have, in accordance with regulations, begun developing integrated operations business models, for example establishing consumer finance companies and financial leasing companies.

According to the CBIRC, during 2014 and 2018, each of the total assets, total liabilities and shareholders' equity of city commercial banks grew at a CAGR of 17.4%, 17.3%, and 19.2%, higher than the corresponding CAGR of all PRC commercial banks of 11.7%, 11.4%, and 15.2%. Total assets of all city commercial banks in China as a percentage of the total assets of all commercial banks in China increased from 13.4% as of December 31, 2014 to 16.4% as of December 31, 2018.

Evolving Regulation and Supervision

In recent years, the PBoC and the CBIRC have promulgated a series of regulations to enhance the regulation and supervision of China's banking industry and cultivate an orderly market for competition. These regulations aim to, among other things, strengthen supervision over capital adequacy, 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". Key requirements of relevant regulations include:

- **Risk Management Improvement**. The PRC banking regulatory institutions launched various rules and regulations to enhance the overall risk management capacity of commercial banks, with specific requirements on timely identification and accurate prediction of risks associated with changes in business model and structure, continuous improvement in overall risk management strategy, and enhancement of risk mitigation capacity through utilizing various capital market instruments.

- **Stringent Management on Business Operations**. Recent regulatory development focused on financial markets business, covering two key areas: (i) encouraging banking institutions to optimize loan portfolio and improve credit support to the real economy, and (ii) taking measures to reduce financing costs of the real economy and simplify structure of financial products through decreasing the number of entities involved in fund flow, including decreasing channel-type business (通道業務).

- **Enhancement in Corporate Governance**. Regulatory focus in corporate government is set upon improvement in structure of management covering entire entity, equity and the operations of board of directors and board of supervisors.

- **Encouraging Capital Replenishment**. In February 2019, the State Council issued policies supporting commercial banks' capital replenishment through multiple channels. The State Council has outlined a raft of measures for commercial banks, including raising the efficiency of examination and approvals for the issuance of perpetual bonds, reducing the threshold for the approval of preferred stock and convertible bonds, and allowing those banks that satisfy the relevant requirements to issue multiple forms of capital supplementation instruments. In addition, these policies encourage funds, annual funds and other long-term investors to participate in the capital replenishment and share expansion of banks, support investments by the wealth management subsidiaries of commercial banks in bank capital supplementation bonds, and encourage foreign financial institutions to participate in bond market transactions.

With the continuous development of the regulatory environment, particularly the trend manifested in the above mentioned rules and regulations, we expect financial institutions in China, including commercial banks, will keep optimising asset quality and improving risk management system.

Deepening of the Interest Rate Liberalization

In the PRC, interest rates on RMB-denominated loans and deposits are set by the financial institution with reference to the benchmark interest rates on loans and deposits published and adjusted from time to time by PBoC. In recent years, as part of the government's efforts to reform the financial system to support a balanced and sustainable growth, China has implemented a series of initiatives to move towards market-based lending and deposits rates.

In July 2013, the PBoC abolished the floor rates for RMB-denominated loans (excluding interest rates on residential mortgage loans). In October 2015, the PBoC removed the cap on deposit interest rates for commercial banks. Effective May 1, 2015, the Deposit Insurance Regulations (《存款保險條例》) of the PRC paved the way for a smooth establishment of a deposit insurance system in China which would thereby push ahead the liberalization of the interest rate mechanism.

Although the on-going interest rate liberalization may give banks greater flexibility in deciding lending and deposits rates, the overall impact of the interest rate reform remains uncertain. The interest rate liberalisation 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.

Challenges and Opportunities for Banks Arising from 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. These Internet-based financial service companies bring in innovative service models, lower the threshold and the cost of providing financial services for the public, and improve the customer experience. Accordingly, China's banking financial institutions are facing the challenges with respect to products, technologies and customer experience.

China's banking industry has capitalised on rapidly developing digital and mobile technology to introduce new businesses, products and service platforms, including the establishment of e-commerce platforms to provide financial services to customers and online sales platforms for financial products. Certain commercial banks have attempted to improve operating efficiency and risk management by utilising big data technology. By integrating their physical networks and services and electronic banking, banks can provide more convenient traditional banking services and innovative banking products to customers. Application of electronic banking channels such as Internet banking, telephone banking and mobile banking has opened broad new channels for banks to expand their banking businesses. In the meantime, online payment is gradually becoming one of the major payment channels. Expanding user base and increasing demand for mobile banking in China have resulted in comprehensive cooperation between commercial banks and Internet companies in the area of Internet finance, which will become one of the focuses of commercial banks' transformation.

Increasing Demand for Customised Personal Banking Products and Services

With the rapid growth of the PRC economy, the per capita income of domestic residents in China has been increasing in the past three decades. According to the NBS, urban households' per capita disposable income increased from RMB28,844 in 2014 to RMB39,251 in 2018, which indicates the growing consumption of domestic residents.

As a result of accumulated personal wealth of domestic residents, PRC customers have been looking for more diversified personal financial products and services. There have been significant growth opportunities in the PRC personal finance market due to the increasing consumer demand for more diversified retail banking products and services, such as residential mortgage loans, credit cards, wealth management services, personal consumer loans and other consumer finance products. We believe that providing quality and customized products and services to retail banking customers will be the significant driving force of our retailing banking business.

OVERVIEW

The banking industry in the PRC 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 institutions. The PBoC 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. The laws and regulations applicable to the PRC banking industry mainly include PRC Commercial Banking Law (《中國商業銀行法》), PRC PBoC Law (《中國人民銀行法》) and PRC Banking Supervision and Regulatory Law (《中國銀行業監督管理法》), and relevant regulations, rules and normative documents established thereunder.

As advised by King & Wood Mallesons, our PRC legal advisor, the Bank had materially complied with all applicable rules and regulations disclosed in this section, during the Track Record Period and up to the Latest Practicable Date.

PRINCIPAL REGULATORS

CBIRC

Functions and Powers

Established by merging the CBRC and the CIRC, the CBIRC is an institution directly under the State Council[1], and is now the principal regulatory authority for financial institutions of the banking industry in the PRC, responsible for the supervision and regulation of banking institutions operating in the PRC, 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 the supervision and regulation of the entities established by domestic financial institutions outside the PRC and the overseas operations of the above-mentioned banking and non-banking financial institutions.

Examination and Supervision

The CBIRC, through its headquarters in Beijing and its bureaus throughout the PRC, monitors the operations of banks and their branches and sub-branches through on-site examinations and off-site surveillance.

[1] On March 17, 2018, the First Session of the Thirteenth National People's Congress adopted the Decision of the First Session of the Thirteenth National People's Congress on the State Council Institutional Reform Proposal (《第十三屆全國人民代表大會第一次會議關於國務院機構改革方案的決定》) and approved the State Council Institutional Reform Proposal (《國務院機構改革方案》). The proposal specifies "establishing the China Banking and Insurance Regulatory Commission. By integrating the duties of the China Banking Regulatory Commission and the China Insurance Regulatory Commission, the China Banking and Insurance Regulatory Commission is established as an institution directly under the State Council. The duties of the China Banking Regulatory Commission and the China Insurance Regulatory Commission to prepare drafts of important laws and regulations in the banking industry and insurance industry and prudently regulate basic systems will be transferred to the PBoC. The China Banking Regulatory Commission and the China Insurance Regulatory Commission will no longer exist". On April 8, 2018, the China Banking and Insurance Regulatory Commission was formally established.

If a banking institution is not in compliance with the relevant banking regulations, the CBIRC is authorized to impose corrective and punitive measures. In extreme cases, when a commercial bank fails to take corrective action within the time period specified by the CBIRC, the CBIRC may order the banking institution to suspend operations and may revoke its operation license. When there is, or is likely to be, a credit crisis within a banking institution, which may materially impact the legitimate interests of depositors and other customers, the CBIRC may take over or procure the restructuring of such banking institution.

PBoC and Inter-departmental Coordination Joint Meeting for Financial Supervision

As the central bank of the PRC, the PBoC is responsible for formulating and implementing monetary policies and maintaining the stability of the PRC financial markets.

On August 15, 2013, the State Council issued the Reply on the Establishment of the Inter-departmental Coordination Joint Meeting System for Financial Supervision (《國務院關於同意建立金融監管協調部際聯席會議制度的批復》), according to which, the PBoC was authorized to take the lead at the joint meetings, with the CBRC, CSRC, CIRC and SAFE as the primary members. The NDRC, MOF and other relevant agencies may be invited to attend the joint meetings, when necessary.

On March 17, 2018, the First Session of the Thirteenth National People's Congress adopted the Decision of the First Session of the Thirteenth National People's Congress on the State Council Institutional Reform Proposal (《第十三屆全國人民代表大會第一次會議關於國務院機構改革方案的決定》) and approved the State Council Institutional Reform Proposal (《國務院機構改革方案》). According to the Proposal, the duties of the CBRC and CIRC to prepare drafts of important laws and regulations in the banking industry and the insurance industry and prudently regulate basic systems will be transferred to the PBoC.

Other Regulatory Authorities

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

LICENSING REQUIREMENTS FOR ADMISSION TO THE INDUSTRY

Basic Requirements

The establishment of a city commercial bank requires the CBIRC's approval and issuance of a business operation license.

Pursuant to the relevant provisions of PRC Commercial Banking Law and Implementation Measures of the CBIRC on Administrative Licensing 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)》), an applicant for the establishment of a city commercial bank will generally meet the following conditions: (1) the articles of association must be in compliance with PRC Commercial Banking Law and PRC Company Law (《中國公司法》); (2) the registered capital must meet the minimum amount in accordance with PRC Commercial Banking Law, in particular, the minimum amount of registered capital for establishing a city commercial bank shall be RMB100 million; (3) the directors and senior management possess the requisite professional knowledge and business experience; (4) the organizational structure and management system are sound; (5) the business premises, safety and security measures and other business-related facilities meet the requirement; and (6) the information technology structure which satisfies the needs of business operation has been set up, and the information technology system supporting business operation is safe and complies with the relevant laws and regulations, and possesses the technologies and measures to ensure its effectiveness and safety.

Significant Changes

City commercial banks are required to obtain approval from the CBIRC or its local offices to undertake significant changes, including: opening, upgrading or closing a branch or sub-branch; change of name of headquarters, a branch or sub-branch; change of registered capital; change of domicile of headquarters, a branch or a sub-branch; change of business scope; change of form of organization; change of shareholders holding 5% or more of the bank's total capital or share; qualification licensing of directors and senior management; investments in the equity interest in the bank by an overseas financial organization; investments to establish, participation in or acquisition of a domestic corporate financial organization or an overseas organization; amendments to the articles of association; merge and acquisition; dissolution and bankruptcy.

Shareholder Management

The Interim Measures for Management of Commercial Bank Equity (《商業銀行股權管理暫行辦法》) issued by the CBRC on January 5, 2018 specifies that the relationships among commercial banks' shareholders and their controlling shareholders, actual controlling persons, related parties, concert parties and ultimate beneficiaries shall be clear and transparent; the shareholding percentage of shareholders and their related parties and concert parties shall be calculated together. 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》) issued by the CBRC on January 12, 2018 takes regulation of (bank) shareholders' behaviors as a key point for rectification to improve the corporate governance, including shareholder management, duty performance and evaluation of members from "the shareholders' general meeting, the Board of Directors, the Board of Supervisors and the senior management" and qualifications of directors, senior management, chief risk officers, chief compliance officers, internal audit officers and financial officers.

Scope of Business

According to relevant provision of PRC Commercial Banking Law, commercial banks are permitted to engage in the following activities: (1) taking deposits from the public; (2) extending short-term, medium-term and long-term loans; (3) effecting domestic and overseas payment settlements; (4) accepting and discounting instruments; (5) issuing financial bonds; (6) acting as the issuing agent, payment agent and underwriter of government bond; (7) trading government bonds and financial bonds; (8) engaging in interbank lending; (9) trading foreign exchange as principal or agent; (10) engaging in bank card business; (11) providing letters of credit and guarantee services; (12) collecting and making payment as agents and acting as insurance agents; (13) providing safe deposit box service; (14) other businesses approved by the banking regulatory authorities under the State Council.

The commercial banks' scope of business shall be provided in their articles of association, which shall be reported to the banking regulatory authorities under the State Council for approval. Meanwhile, subject to approval by the PBoC, commercial banks may engage in settlement and sales of foreign exchange.

Establishment of Branches and Sub-branches

According to Implementation Measures of the CBIRC on Administrative Licensing 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)》), in order to establish branches, the headquarters of city commercial banks shall submit applications to provincial offices of the CBIRC.

REGULATION ON PRINCIPAL COMMERCIAL BANKING ACTIVITIES

Loan business

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 August 4, 2015 and 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 the Management of Risks of Real Estate Loans Granted by Commercial Banks (《商業銀行房地產貸款風險管理指引》) issued by the CBRC on August 30, 2004 specifies that commercial banks shall set forth the risk policies on the real estate loans and the standards for operation and check of different types of loans, clarify the standards for examination and approval of different types of loans, the operational procedures, risk control, after-loan management, and selection of intermediary institutions, etc. Meanwhile, commercial banks are not allowed to grant land reserve loans to any borrower whose capital is not fully contributed or is seriously insufficient or whose management is irregular or grant any form of loans to any real estate projects without the state-owned land use permit, construction land planning permit, planning permit for construction project and construction permit for construction project.

The Guidelines on Project Finance Business (《項目融資業務指引》) promulgated by the CBRC on July 18, 2009 specifies that banking institutions shall require to set the project assets and/or expected return and other rights eligible for mortgage or pledge as guarantees for project finance loans, and if necessary, the equity of project companies held by project sponsors may be set as a pledge guarantee for loans. Lenders shall also require to be the claimants first in line to insurance compensation of the commercial insurance bought for projects or take other measures to effectively control rights of insurance indemnities. Banking institutions shall negotiate a special account with borrowers to receive all revenue from financing projects, and monitor such account and promptly find out the causes and take corresponding measures in case of unusual movements.

The Guiding Opinions of the PBoC, CBRC, CSRC and CIRC on Further Supporting the Restructuring and Revitalization of Key Industries and Curbing Overcapacity in Certain Industries through Financial Services (《中國人民銀行、銀監會、證監會、保監會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 provides that for enterprises and projects that comply with the requirements of the plans for restructuring and revitalizing national key industries, meet market entry requirements and conform to the principles of bank credit, credit funds should be guaranteed to be granted in a timely and efficient manner. For projects that fail to comply with national industrial policies, market entry requirements and technical standards, and lack project capital, no credit support shall be provided. For projects in industries with overcapacity, loans shall be strictly examined and approved.

The Interim Measures for the Administration of Working Capital Loans (《流動資金貸款管理暫行辦法》) promulgated by the CBRC on February 12, 2010 provides that commercial banks shall reasonably assess the borrower's working capital needs and prudently determine the total amount of working capital loan funds granted to the borrower and the limit of loan amount, and shall not grant working capital loans in excess of the borrower's actual needs. Commercial banks and borrowers shall clearly stipulate the legal uses of loans. Working capital loans shall not be used for investments in fixed assets, equity investments or fields or purposes where production or operation has been expressly prohibited by the state.

The Interim Measures for the Administration of Personal Loans (《個人貸款管理暫行辦法》) promulgated by the CBRC on February 12, 2010 provides that personal loan agreements are required to specify the purpose of loan funds. The uses of personal loans shall comply with laws and regulations and relevant state policies. Commercial banks shall not extend personal loans with no designated purpose. Meanwhile, the term and interest rate of personal loans shall comply with relevant state regulations. The lender 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.

The Guidelines on the Risk Management of Risks of Credits Granted by Commercial Banks to Group Borrowers (《商業銀行集團客戶授信業務風險管理指引》) promulgated by the CBRC on June 4, 2010 requires that the credit balance of a commercial bank to a single group borrower shall not exceed 15% of its net capital; otherwise, the credit extended will be deemed as having exceeded its risk tolerance capacity. If the credit needs of a group borrower exceeds the risk tolerance capacity of a bank, the commercial bank shall take measures to diversify the risks through syndicated loans, loan participation and loan transfer. In line with its prudent supervision requirement, the CBRC may lower the ratio of the credit balance of a commercial bank to a single group borrower and net capital.

The Notice of the PBoC and CBRC on Issues Concerning the Improvement of Differentiated Housing Credit Policies (《中國人民銀行、中國銀行業監督管理委員會關於完善差別化住房信貸政策有關問題的通知》) issued by the PBoC and the CBRC on September 29, 2010 requires all commercial banks to suspend the granting of housing loans to families that purchase the third or more residential properties or to non-local residents who are unable to provide evidence of payments of local tax or social security of more than one year. Pursuant to the notice, for a first-time purchaser of any commercial housing property, the minimum down payment ratio is adjusted to 30% or more, while the minimum down payment ratio for a second home buyer is strictly imposed at not less than 50% of the purchase price with the interest rate being no less than 110% of PBoC benchmark interest rates on loans.

The Notice of CBRC on the Publication and Distribution of Green Credit 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 requires banking institutions to effectively identify, measure, monitor and control environmental and social risks in the course of their credit business, and to establish the relevant risk exposure management systems. Banks are also required to explicitly declare their support for green credit, formulate specific guidelines for granting credit facility to restricted industries and industries with material environmental and social risks, carry out flexible differentiated credit granting policies, and implement risk management systems.

The Measures for Administration of Loans for Peasant Households (《農戶貸款管理辦法》) issued by the CBRC on September 17, 2012 encourage rural financial institutions and other banking institutions which offer peasant household loans to develop agriculture-related loan business, work out relevant business strategies and strengthen their risk management ability in agriculture-related loans, and specify that peasant household loans should be used for purposes specified in laws, regulations and relevant state policies and banking institutions should not grant peasant household loans without a designated use.

The Notice of the General Office of the State Council on Further Regulation and Control of 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 General Office of the State Council on February 26, 2013 prohibits commercial banks from providing loans for new development projects to real estate developers which have illegal and non-compliance conduct such as hoarding idle land and participating in speculative land trading, withholding property units to limit sales and pushing up property prices.

Meanwhile, commercial banks should enhance borrowers' qualification examination, and investigate the records of family housing registration and borrowers' credit records in strict accordance with provisions and should not grant loans to borrowers who do not comply with credit policies.

On April 9, 2013, the Guiding Opinions on Strengthening the Risk Control and Management of Loans to Local Financing Vehicles in 2013 (《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》) was issued by the CBRC, pursuant to which all banks are required to impose aggregate loan limits on LGFVs and the banking institutions as legal persons should not expand the scale of loans to LGFVs. The opinions also require that, for LGFVs with a cash flow coverage ratio lower than 100% or a gearing ratio higher than 80%, the proportion of their loans to the total loans granted by all vehicles of the bank shall not exceed that of the previous year, and the bank shall take measures to gradually reduce disbursements of loans and increase efforts for recovery of loans.

Pursuant to the requirements of the Opinions of the State Council on Strengthening the Administration of Local Government Debts (《國務院關於加強地方政府性債務管理的意見》) issued by the State Council on September 21, 2014, financial institutions shall not provide financing to or seek guarantee from local governments in violation of applicable laws or regulations. Purchasing of bonds issued by local governments by financial institutions shall be in compliance with regulatory requirements. When providing financing to enterprises whose debt may become the government's contingent liabilities, financial institutions shall strictly regulate credit management by practicably enhancing risk identification and risk management. Financial institutions shall undertake on their own any consequential losses incurred as a result of providing financing to governments in violation of applicable laws or regulations, and the relevant authorities and persons shall be held legally liable according to laws and regulations, including the Commercial Banking Law and the Banking Supervision and Regulatory Law.

Pursuant to the Opinions on Properly Solving Subsequent Financing Issues of the On-going Projects of LGFVs (《關於妥善解決地方政府融資平台公司在建項目後續融資問題的意見》) issued by the MOF, PBoC and CBRC, which were forwarded by the General Office of the State Council on May 11, 2015 and implemented on the same date, local governments at various levels and banking institutions shall observe the principles of controlling the total amount and applying differentiated treatment in supporting the financing needs of existing on-going projects of the financing vehicles to ensure the orderly progress of on-going projects. For loans to on-going projects of financing vehicles, banking institutions are required to make their own decisions, assume risks by themselves and practically perform subsequent financing management based on prudent estimation of the repayment ability of financing vehicles and the revenue from on-going projects and consideration of the debt repayment ability of local governments on a consolidated basis. Banking institutions are required to conscientiously examine the use of loan proceeds, to focus support on the on-going projects of financing vehicles in the areas of, among other things, agricultural irrigation facilities, affordable housing projects and urban rail transit, and ensure that the loans are consistent with the development needs of industries and development plans of industrial parks.

On September 29, 2014, the PBoC and the CBRC issued the Notice of the PBoC and the CBRC on Further Improving Housing Financial Services (《中國人民銀行 中國銀行業監督管理委員會關於進一步做好住房金融服務工作的通知》), which sets the minimum down payment ratio at 30% and the minimum interest rate at 70% of benchmark interest rates on loans for a family purchasing a home for self-use for the first time, with the specific down payment ratio and interest rate to be determined by the banking institutions on their own according to their risk conditions. Banking institutions should apply the policies for first home buyers to families who already own a residence, have fully repaid the relevant residential mortgage loans, and are applying for a loan to purchase another ordinary residential property to improve their living conditions. Furthermore, in cities that have lifted or have not imposed the restrictions for property purchasing, where a family that owns two or more residential properties and has repaid in full all relevant loans and applies for a loan to purchase another residential property, banking institutions shall prudently determine the down payment ratio and the loan interest rate, taking into account the borrower's ability to make repayment and credit standing.

Under the latest audited Guidelines on Risk Management of Mergers and Acquisitions Loans for Commercial Banks (《商業銀行併購貸款風險管理指引》) promulgated by the CBRC on February 10, 2015, the total balance of merger and acquisition loans approved by a commercial bank is subject to a cap of no more than 50% of the net tier-one capital of the bank for the corresponding fiscal period, the balance of merger and acquisition loans approved by a commercial bank to an individual borrower may not exceed 5% of the net tier-one capital of the bank for the corresponding fiscal period, a merger and acquisition loan may not exceed 60% of the merger and acquisition transaction price, and the tenor of merger and acquisition loans may not exceed seven years.

On March 30, 2015, the PBoC, the MOHURD and the CBRC issued the Notice of the PBoC, MOHURD and the CBRC on Issues Concerning Individual Housing Loan Policies (《中國人民銀行住房和城鄉建設部中國銀行業監督管理委員會關於個人住房貸款政策有關問題的通知》), which specifies that for families who already own a residence, but have not fully repaid the relevant residential mortgage loans and are applying for a commercial individual housing loan again to purchase another ordinary residential property to improve their living conditions, the minimum down payment ratio is adjusted to not less than 40%, and the specific down payment ratio and interest rate should be reasonably determined by banking institutions according to the borrower's credit standing and ability to make repayment. For a family under housing provident fund scheme which uses entrusted loans under housing provident fund scheme to purchase the first ordinary residential property, the minimum down payment ratio is 20%. For a family under housing provident fund scheme which already owns a residence, has fully repaid the relevant residential mortgage loans and applies for an entrusted loan under housing provident fund scheme again to purchase another ordinary residential property to improve its living conditions, the minimum down payment ratio is 30%.

The Notice of the PBoC and CBRC on Issues Concerning the Further Improvement of Differentiated Housing Credit Policies (《中國人民銀行中國銀行業監督管理委員會關於進一步完善差別化住房信貸政策有關問題的通知》) issued by the PBoC and the CBRC on September 24, 2015 requires that in cities where "restrictions on purchase" have not been implemented, for households which apply for commercial individual housing loans for the purchase of their first residential property, the minimum down payment ratio has been adjusted to not less than 25%.

The Notice of the PBoC and CBRC on Issues concerning Adjustment to the Housing Loan Policies for Individuals (《中國人民銀行中國銀行業監督管理委員會關於調整個人住房貸款政策有關問題的通知》) issued by the PBoC and the CBRC on February 1, 2016 requires that in cities where "restrictions on purchase" have not been implemented, for families which apply for commercial individual housing loans for the purchase of their first residential property, the minimum down payment ratio is 25% in principle, with downward floating adjustment of 5 percentage points for all regions; if a family owns a residence, but has not fully repaid the relevant residential mortgage loans and applies for a commercial individual housing loan again to purchase another ordinary residential property to improve its living conditions, the minimum down payment ratio has been adjusted to not less than 30%. In cities where "restrictions on purchase" have been implemented, policy on individual housing loans will be implemented according to its original requirements.

Entrusted loan business

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 based on the principle of matching between responsibilities and benefits, and shall not determine the borrowers for the clients, not participate in loan decisions, 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 of which the 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 and 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; (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 are required to obtain approvals from or file with the PBoC, SAFE and the CBIRC or their respective local offices to conduct the business of foreign exchange. Under PRC anti-money laundering laws and regulations, PRC financial institutions are required to report to the Anti-money Laundering Monitoring and Analysis Center any large or suspicious foreign exchange transactions which they handle or find on a timely basis.

Securities and Asset Management Businesses

Commercial banks in the PRC are generally prohibited from trading and underwriting equity securities. Commercial banks in the PRC are permitted to: (1) underwrite and deal in Chinese government bonds, financial institution bonds and commercial bonds issued by qualified non-financial institutions; (2) act as agents in securities transactions involving including bonds issued by the Chinese government, financial institutions and other corporate entities; (3) provide institutional and individual investors with comprehensive asset management advisory services; (4) act as financial advisors in connection with large infrastructure projects, mergers and acquisitions and bankruptcy reorganizations; (5) act as custodians for funds, including securities investment funds and corporate annuity funds.

On April 2, 2013, the CSRC and CBRC promulgated the Administrative Measures on the Custodian Business for Securities Investment Fund (《證券投資基金託管業務管理辦法》), which provides that a commercial bank may be permitted to engage in the custodian business for securities investment funds, if, (1) such commercial bank has year-end net assets of not less than RMB2.0 billion for each of the previous three financial years and its capital adequacy ratio and other risk control indicators fulfil the relevant regulatory requirements; (2) The persons to be appointed as senior managers of the fund custody department must meet the statutory requirements and at least a half of employees in the department have obtained the qualification to engage in fund business; there should be at least 8 employees to be engaged in fund liquidation, accounting, investment supervision, information disclosure, internal auditing and monitoring and other businesses and they must have obtained the qualification to engage in fund business; specifically, employees working at positions of core businesses such as accounting and supervision should have more than 2 years of experience in custody business; (3) such commercial bank is capable of keeping fund property safe and ensuring the integrity and independence thereof; (4) such commercial bank has a safe and efficient liquidation and settlement system; (5) the fund custody department has a fixed place of business and an independent security monitoring system; (6) the fund custody department has independent technology systems for custody business, including network system, application system, security defending system, and data backup system; (7) such commercial bank has a sound internal audit monitoring system and risk control system; (8) such commercial bank had no records of major violation of laws and rules in the last three years; (9) such commercial bank has a fund custody department and the setup of the department can ensure the integrity and independence of custody business operations; and (10) such commercial bank meets other requirements of laws and administrative regulations and set by the CSRC and CBRC as approved by the State Council.

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"). The April 27 Guideline clearly states that, to regulate the asset management business of financial institutions, the regulators should stick to the bottom line of strict risk control, the fundamental goal of serving the real economy, the concept of combining macro-prudential management with micro-prudential regulation, target problem orientation and the basic principles of activeness, prudence and caution, 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, and 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) Public offering products cannot be invested in non-standard credit assets. 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 implicit guarantee. The following behaviors are regarded as implicit guarantee: (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. (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.

Insurance Agency Business

Commercial banks in the PRC are not permitted to underwrite insurance policies, but are permitted to act as agents to sell insurance products through their distribution networks. Commercial banks that conduct agency sales of insurance products are required to comply with applicable rules issued by the CIRC. On November 1, 2010, the CBRC promulgated the Notice of the CBRC on Further Strengthening the Compliant Sales and Risk Management of Commercial Banks' Insurance Agency Business (《中國銀監會關於進一步加強商業銀行代理保險業務合規銷售與風險管理的通知》), which provides that each outlet of a commercial bank may, in principle, cooperate with no more than three insurance companies in a financial year to sell their insurance products. If the outlet cooperates with more than three insurance companies, the outlet must report to the local office of the CBRC.

On April 25, 2016, the CIRC promulgated the Notice of the CIRC on Matters Relating to the Administrative Licensing of Bancassurance Agencies (《中國保監會關於銀行類保險兼業代理機構行政許可有關事項的通知》), which provides that after a banking institution has obtained the bancassurance agency license, its branches and sub-branches may commence bancassurance agency business under the authorization of legal entities.

Wealth Management Business

On September 24, 2005, the CBRC promulgated the Interim Measures on Administration of Personal Wealth Management Services of Commercial Banks (《商業銀行個人理財業務管理暫行辦法》), which provides that commercial banks shall have an examination & approval system and a reporting system for personal wealth management business; if commercial banks engage in income-protected wealth management plans, new investment products of income-protected nature designed for personal wealth management business and some other personal wealth management activities for which approval from the CBRC is required, they must obtain approval from the CBRC. If they engage in other personal wealth management activities for which approval is not required, they should also report to the CBRC or its local offices.

In addition to domestic wealth management, on April 17, 2006 the PBoC, CBRC and SAFE jointly promulgated the Interim Administrative Measures for Commercial Banks to Provide Overseas Financial Management Services (《商業銀行開辦代客境外理財業務管理暫行辦法》), which provides that commercial banks shall seek the approval of the CBRC before engaging in overseas wealth management activities on behalf of customers. Duly licensed commercial banks engaging in overseas wealth management activities on behalf of customers are permitted to accept entrustment from domestic institutions and individuals to invest overseas in pre-approved financial 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》), which repeals the Interim Measures on Administration of Personal Wealth Management Services of Commercial Banks and provides that (1) commercial bank that sells wealth management products shall not publicize or promise the guarantee of principal and proceeds; (2) 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 Measures for the Supervision and Administration of the Wealth Management Business of Commercial Banks 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 Measures for the Supervision and Administration of the Wealth Management Business of Commercial Banks, 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 bylaws prescribed in the Company Law of the People's Republic of China and by 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 for holding office, 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; (7) it meets other prudential conditions prescribed in the rules of the banking regulatory authority of the State Council.

Bills Business

According to relevant provisions of the Commercial Banking Law (《商業銀行法》), when commercial banks engage in the settlement business, including bills acceptance, foreign exchange conversion and entrusted fund collection, the commercial banks 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.

Interbank Business

On April 24, 2014, the PBoC, the CBRC, CSRC, CIRC and SAFE jointly promulgated the Notice on Regulating Interbank Businesses of Financial Institutions (《關於規範金融機構同業業務的通知》), which sets out certain requirements in connection with regulating interbank business operations: (1) the Circular defines and regulates interbank financing and investment businesses, including interbank lending, interbank deposits, interbank borrowing, interbank payments, financial assets held under resale agreements or financial assets sold under repurchase agreements. The Circular also required that interbank businesses (with investment and financing being the core businesses) should be classified into different categories in accordance with business substance, and different interbank businesses should be managed based on the classification; (2) financial assets held under resale agreements (and financial assets sold under repurchase agreements) shall only include bank acceptance bills, bonds, treasury bills and other types of financial assets with a reasonable fair value and high liquidity that are traded on the interbank market or securities exchange market; the party who sells financial assets under repurchase agreements shall not exclude the financial assets under the business from the balance sheet; (3) financial institutions that engage in the business of financial assets held under resale agreements (and financial assets sold under repurchase agreements) and interbank investment business shall not accept or provide any direct or indirect, explicit or implicit credit guarantee from or for any third-party financial institutions, except as otherwise permitted by the state; (4) financial institutions shall accurately measure risks and set aside capital and make provisions pursuant to the principle of "substance over form" and based on the nature of the underlying assets invested; (5) financial institutions shall determine the financing term in a reasonable and prudent manner in interbank business. The term of interbank borrowing shall not exceed three years and the term of other interbank financing business shall not exceed one year, and such terms must not be extended beyond their maturity; (6) the net balance of interbank funds (excluding interbank deposits for settlement purposes) placed by a single commercial bank to another financial institution as a legal person after deducting assets with zero risk-weighting shall not exceed 50% of the bank's tier-one capital and the balance of interbank funds borrowed by a single commercial bank shall not exceed one third of its total liabilities, which temporarily do not apply to the provincial rural credit cooperatives, secondary credit cooperatives with legal status and village & town banks; and (7) financial institutions engaging in interbank business should establish a sound and compatible risk management system and internal control system and adopt correct methods of accounting treatments.

On May 8, 2014, the General Office of the CBRC issued the Notice on the Regulation of the Management of Interbank Business Conducted by Commercial Banks (《中國銀監會辦公廳關於規範商業銀行同業業務治理的通知》), which requires commercial banks to establish a management system for interbank businesses based on the scale and complexity of the interbank businesses conducted, and conduct all interbank businesses through specialized departments by the end of September 2014.

Bank-trust Business

On August 5, 2010, the CBRC issued the Notice of the China Banking Regulatory Commission on Regulating the Relevant Matters on Wealth Management Cooperation 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 requirements in conducting financing-type bank-trust wealth management cooperation: (1) the term of a trust product of a trust company which cooperates with banks in wealth management shall not be less than one year; (2) implement balance ratio management on the financing-type bank-trust wealth management cooperation, i.e. the balance of financing business shall not exceed 30% of the balance of bank-trust wealth management cooperation; (3) trust companies shall not design open trust products; (4) funds for the investment-type bank-trust wealth management cooperation 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 or 2.5% of the total balance of bank-trust loans.

On November 11, 2017, the CBRC issued the Notice of the China Banking Regulatory Commission 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.

Electronic Banking

On January 26, 2006, to strengthen the security and risk management of electronic banking business, the CBRC promulgated the Administrative Measures Regulating the Electronic Banking Business (《電子銀行業務管理辦法》) and Security Evaluation Guidelines on Electronic Banking (《電子銀行安全評估指引》). All banking institutions applying to establish an electronic banking business should have comprehensive risk management and internal control systems. Banking institutions are not permitted to have major accidents relating to their primary information management system and operations processing system in the year immediately prior to the submission of their application. In addition, all banking institutions conducting electronic banking business must adopt security measures to ensure the confidentiality of information and to prevent the unauthorized use of electronic banking accounts.

The CBRC promulgated the Notice of the CBRC on Enhancing the Management of Customer Information of Electronic Banking (《中國銀監會關於加強電子銀行客戶信息管理工作的通知》) on August 9, 2011, which stresses the importance of commercial banks to be committed to the work concerning the security and confidentiality of customer information. Without customers' authorization, commercial banks may not directly or indirectly provide third-party organizations with the customers' names, types of certificates, certificate numbers, mobile phone numbers, fixed-line telephone numbers, correspondence addresses and other sensitive information of customers.

Credit Cards

On January 13, 2011, the CBRC promulgated the Measures for the Supervision and Administration of the Credit Card Business of Commercial Banks (《商業銀行信用卡業務監督管理辦法》), which provides that commercial banks conducting credit card business shall (1) establish effective internal control and risk management systems to monitor the operation of their credit card business, as well as to protect the legitimate interests and personal information of customers; (2) without the authorization of customers, not apply relevant information for other purposes other than credit card business of the Bank; (3) establish and improve the risk management system and internal control system for credit card business, strictly implement authorization management and effectively identify, evaluate, monitor and control business risks; (4) fully disclose relevant information and business risks to cardholders and establish comprehensive mechanisms to handle relevant complaints; (5) get the approval from the CBRC.

Proprietary Investments

In general, commercial banks in the PRC are prohibited from making domestic investments other than in debt instruments issued by the Chinese government and financial institutions, short-term commercial paper, medium-term notes, corporate bonds, corporate debts, and asset securitization varieties issued by qualified non-financial institutions, and certain derivative products. Unless approved by the Chinese government, commercial banks in the PRC are prohibited from engaging in trust investment and securities businesses, or investing in real estate (other than for their own use) or non-banking financial institutions and enterprises.

Business of Community Sub-branches and Sub-branches for Small and Micro Enterprises

On December 5, 2013, the CBRC promulgated the Notice of the Administrative Office of the CBRC on Establishment of Community Sub-branches and SME Sub-branches by Small-and Medium 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 commercial banks to set up community sub-branches and sub-branches for small and micro enterprises with their own characteristics on the condition that their risks and costs are manageable. As a special type of sub-branch, the community sub-branches and sub-branches for small and micro enterprises are simply bank outlets that are 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.

Financing to Small and Micro Enterprises

On October 31, 2014, the State Council issued the Opinions of the State Council on Supporting the Sound Development of Micro and Small Enterprises (《國務院關於扶持小型微型企業健康發展的意見》), which encourages and guides banks to focus on supporting small and micro enterprises as well as regional economic development, and requests banking institutions to separately list credit plans for small and micro enterprises subject to commercial sustainability and effective risk control.

On June 22, 2015, the CBRC issued the Notice from the 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 adhering to the problem-oriented principle, ensuring the implementation of policies, clarifying the emphasis of supports, increasing the input of credit and loan, advancing the innovation of loan services, expanding the scope of autonomous refinancing, improving tolerance indicator of non-performing assets, strengthening differentiated assessment, optimizing the allocation of internal resources, improving the service ability, strictly implementing the "two prohibitions and two restrictions" and standardizing service charge for the purpose of implementing each supporting policy and continually improving and deepening financial service to small and micro enterprises.

PRICING OF PRODUCTS AND SERVICES

Interest Rates for Loans and Deposits

In accordance with PRC Commercial Banking Law, banks shall determine the interest rate for RMB-denominated deposits and loans within the range of benchmark interest rates set by the PBoC. In recent years, the PBoC has gradually liberalized its regulation of interest rates, allowing banks more flexibility to determine the interest rates for RMB-denominated loans and deposits.

On July 20, 2013, the PBoC removed the minimum interest rate requirement for new loans provided by commercial banks, whereas the minimum interest rates for new personal residential mortgage loans remained at 70% of the PBoC benchmark lending rate. On September 29, 2014, the PBoC and the CBRC stipulated that the policies for first-time home buyers should apply if a family already owned a residence, had fully repaid the relevant loan, and applied for a loan to purchase another ordinary commercial residence to improve its living condition.

With effect from 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 the PBoC benchmark rates. Since then, the upper cap of RMB deposit rate of PRC commercial banks continued to lift. 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.

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 with effect from July 20, 2013.

From 2011 to the Latest Practicable Date, the PBOC has adjusted the benchmark rate for RMB-denominated loans and the benchmark rate for RMB-denominated deposits 11 times. The table below sets out the PBoC benchmark rates for RMB-denominated loans and RMB-denominated deposits since 2014.

Annual interest rate:%

Date of adjustment	Six months or less	Over six months up to one year (inclusive)	Over one year up to three years (inclusive)	Over three years up to five years (inclusive)	Over five years	Individual housing provident fund loans: Up to five years	Individual housing provident fund loans: Over five years
	(annualized interest rate (%))						
November 22, 2014	5.60	5.60	6.00	6.00	6.15	3.75	4.25
March 1, 2015	5.35	5.35	5.75	5.75	5.90	3.50	4.00
May 11, 2015	5.10	5.10	5.50	5.50	5.65	3.25	3.75
June 28, 2015	4.85	4.85	5.25	5.25	5.40	3.00	3.50
August 26, 2015	4.60	4.60	5.00	5.00	5.15	2.75	3.25
October 24, 2015	4.35	4.35	4.75	4.75	4.90	2.75	3.25

Annual interest rate:%

Date of adjustment	Demand deposits	Deposits of lump-sum deposit and withdrawal Three months	Six months	One year	Two years	Three years
November 22, 2014	0.35	2.35	2.55	2.75	3.35	4.00
March 1, 2015	0.35	2.10	2.30	2.50	3.10	3.75
May 11, 2015	0.35	1.85	2.05	2.25	2.85	3.50
June 28, 2015	0.35	1.60	1.80	2.00	2.60	3.25
August 26, 2015	0.35	1.35	1.55	1.75	2.35	3.00
October 24, 2015	0.35	1.10	1.30	1.50	2.10	2.75

Pricing for Fee-and Commission-based Products and Services

The CBRC and NDRC jointly promulgated the Measures on Pricing of Commercial Banking Services (《商業銀行服務價格管理辦法》) on February 14, 2014, which provides that the pricing of basic banking services that are extensively used by customers and have a significant bearing on the development of the national economy and people's livelihood shall be guided or determined by the government. Other than those services the pricing for which are guided or determined by the government, for commercial banking services which are priced based on market conditions, the bank is required to make public such prices at least three months prior to the implementation of such prices in accordance with the Administrative Measures on Pricing of Commercial Banking Services (《商業銀行服務價格管理辦法》).

REQUIRED DEPOSIT RESERVE

Commercial banks are required to maintain a percentage of their total deposits as reserves with the PBoC to ensure they have sufficient liquidity to meet customer withdrawals. As of the Latest Practicable Date, our Bank is required to maintain a deposit reserve of 10.0% of our total outstanding RMB deposits according to the relevant requirements of the PBoC.

SUPERVISION OVER CAPITAL ADEQUACY

Latest Supervisory Standards Over Capital Adequacy

On June 7, 2012, the CBRC promulgated Capital Administrative Measures (Provisional) (《資本管理辦法(試行)》) (effective on January 1, 2013), requiring commercial banks to maintain a minimum capital adequacy ratio of 8% and a minimum core tier-one capital adequacy ratio of 5%. Prior to calculating the capital adequacy ratio, commercial banks shall make sufficient provisions for various impairment losses (including those related to loans). According to Capital Administrative Measures (Provisional) (《資本管理辦法(試行)》), capital adequacy ratios of commercial banks are calculated according to the following formulae:

(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%.

According to the relevant provisions of Capital Administrative Measures (Provisional) (《資本管理辦法(試行)》), the total capital of commercial banks includes core tier-one capital, other tier-one capital and tier-two capital. Risk-weighted assets of commercial banks include credit risk-weighted assets, market risk-weighted assets and operational risk-weighted assets.

Regulatory Requirements in respect of Capital Adequacy Ratios

Regulatory requirements in respect of the capital adequacy ratios of commercial banks include the minimum capital requirement, capital conservation buffer requirement, countercyclical capital buffer requirement, additional capital requirement for systematically important banks and capital requirement under the second pillar. The capital adequacy ratio of commercial banks at each tier must meet the following minimum requirements: (1) capital adequacy ratio shall not be lower than 8%; (2) tier-one capital adequacy ratio shall not be lower than 6%; and (3) core tier-one capital adequacy ratio shall not be lower than 5%.

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

Meanwhile, systematically important banks are required to calculate and set aside additional capital. Systematically important banks in the PRC are required to calculate and set aside additional capital in an amount equal to 1% of their risk-weighted assets, which is to be fulfilled by core tier-one capital. If a PRC bank is recognized as a global systematically important bank, the additional capital requirement applicable to it cannot be less strict than those requirements generally provided for by the Basel Committee.

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

Capital Administrative Measures (Provisional) provide that commercial banks are required to meet the regulatory requirements on capital adequacy ratios as set forth in those measures before the end of 2018, and where conditions permit, commercial banks are encouraged to meet the requirements ahead of schedule. For commercial banks which cannot continue to meet the requirements on the application of advanced approach for capital measurement as required by these measures, the CBRC shall be entitled to request them to make rectification within a prescribed time limit. For commercial banks which failed to reach the standard within a prescribed time limit, the CBRC shall be entitled to cancel their qualification for adopting advanced approach for capital measurement.

To ensure the smooth implementation of the Capital Administrative Measures, on November 30, 2012, the CBRC promulgated the Notice of the CBRC Regarding the Arrangement of Transition Period of Implementation of the Administrative Measures for the Capital of Commercial Banks (Provisional) (《中國銀監會關於實施<商業銀行資本管理辦法(試行)>過渡期安排相關事項的通知》). According to the requirements of this notice, commercial banks shall meet the minimum capital requirements and systematically important banks in the PRC shall meet the additional capital requirements before January 1, 2013. During the transitional period, the capital reservation buffer requirement (2.5%) will be gradually introduced and commercial banks are required to meet the following annual capital adequacy ratio requirement:

		As of December 31					
Type of Bank	**Item**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Systematically 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%

In addition, pursuant to above-mentioned notice, during the transitional period, if commercial banks are required to set up countercyclical capital buffer requirements or regulatory authorities impose capital requirements on an individual bank under the second pillar, the regulatory authorities will prescribe a time limit for meeting the requirements. Commercial banks subject to such additional requirements are required to meet the relevant deadlines.

Issuance of Tier-Two Capital Bonds

On June 17, 2004, the PBoC and CBRC jointly promulgated the Measures for Administration on Issuance of Subordinated Bonds of Commercial Banks (《商業銀行次級債券發行管理辦法》). These Measures provide that 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. The issuance of subordinated bonds is subject to the regulation of the PBoC and CBRC in accordance with law. The CBRC regulates the qualification for subordinated bonds issued by commercial banks and the method for the inclusion of such subordinated bonds in the supplementary capital. The PBoC regulates the issuance and trading of subordinated bonds in the interbank bond market.

Pursuant to the Capital Administrative Measures for Commercial Banks (Provisional), 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 criteria for inclusion of the relevant 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.

Supervision over Capital Adequacy

The CBRC is responsible for supervising the capital adequacy of banking institutions in the PRC. It reviews and evaluates banking institutions' capital adequacy through both on-site examination and off-site surveillance.

Under Capital Administrative Measures (Provisional), commercial banks are classified into four categories based on their capital adequacy, and the CBRC adopts corresponding actions to these banks, the details of which are set forth below:

Categories	Capital adequacy	Measures of the CBIRC
Grade I . . .	Commercial banks which meet all the capital requirements for capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio.	• To require the commercial bank to enhance analysis and forecast of the reasons for the decline of its capital adequacy ratio; • To require the commercial bank to formulate a practicable capital adequacy ratio management plan; and • To require the commercial bank to improve its risk control capability.
Grade II. . .	Commercial banks which fail to meet the second pillar capital requirements but meet all other capital requirements for capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio.	• To adopt the regulatory measures for Grade I banks; • To hold talks on prudent practice with the board of directors and senior management of the commercial bank; • To issue a regulatory opinion, which must include: the problems identified with the capital management of the commercial bank, the proposed measures for remediation and the opinion on meeting the requirements within the prescribed time limit; • To require the commercial bank to formulate a practicable capital and the plan for meeting the prescribed time limit; • To increase the frequency of supervision and inspection of the capital adequacy of the commercial bank; and • To require the commercial bank to take risk-mitigation measures for specific risk areas.
Grade III . .	Commercial banks which meet all the minimum capital requirements for capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio but fail to meet other capital requirements.	• To adopt the regulatory measures for Grade I and II banks; • To restrict the commercial bank from distributing dividends and other income; • To restrict the commercial bank from granting any form of incentives to directors and senior management; • To restrict the commercial bank from making equity investments or repurchasing capital instruments; • To restrict the commercial bank from incurring major capital expenditure; and • To require the commercial bank to control the growth of risky assets.
Grade IV . .	Commercial banks which fail to meet the minimum capital requirement for any of capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio.	• To adopt the regulatory measures for Grade I, II and III banks; • To require the commercial bank to significantly downsize risky assets; • To order the commercial bank to suspend all high-risk asset businesses; • To restrict or prohibit the commercial bank from establishing new institutions or launching new businesses; • To require the commercial bank to write down tier-two capital instruments or convert them into ordinary shares; • To order the commercial bank to change its directors or senior management or restrict their rights; • To lawfully take over the commercial bank or procure the institutional reorganization of, or even dissolve, the commercial bank; and • To consider external factors and take other necessary measures.

Note: As of September 30, 2018, our Bank was a Grade I bank as shown in the table above.

Introduction of the New Leverage Requirements

In an effort to efficiently control the leverage and maintain the safe and sound operations of commercial banks, the CBRC promulgated the Administrative Measures on the Leverage Ratio of Commercial Banks (2015 Amendment) (《商業銀行槓桿率管理辦法(2015修訂)》) on January 30, 2015, which came into effect on April 1, 2015.

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

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

For a commercial bank which fails to meet the minimum leverage ratio, the CBRC and its local offices may take remedial actions, including requiring the commercial bank to: (i) supplement its tier-one capital within a specified period; (ii) control the growth of its on-and-off balance sheet assets; and (iii) reduce the size of its on-and-off balance sheet assets. If the commercial bank fails to 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 actions pursuant to the PRC Banking Supervision and Regulatory Law. In addition to the above-mentioned regulatory measures, the CBRC and its local officers may also impose an administrative penalty upon the commercial bank.

The Administrative Measures on the Leverage Ratio of Commercial Banks also provide that systematically important banks are required to meet minimum regulatory requirements on April 1, 2015 when these measures become effective, while other commercial banks are required to meet such requirements before the end of 2016.

Commercial banks are required to regularly report their gearing ratio statements pursuant to the requirements of the CBIRC and its local offices. Their consolidated gearing ratio statements shall be reported on a semi-annual basis and their unconsolidated gearing ratio statements shall be reported on a quarterly basis.

Basel Accords

The Basel Capital Accord, or Basel I, was introduced by the Basel Committee on Banking Supervision, or the Basel Committee, in 1988. Basel I is a capital measurement system for banks that provides for the implementation of a credit risk measurement framework with a minimum capital adequacy ratio of 8%.

Since 1998, the Basel Committee has issued certain proposals for Basel II to replace Basel I.

In response to the deficiencies in financial regulation revealed by the 2008 financial crisis, the Basel Committee on Banking Supervision started to advance the global financial regulatory reform in an effort to further strengthen the regulation, supervision and risk management of the banking industry. In such circumstances, Basel III was drafted and then endorsed by G20 Leaders at their November 2010 Seoul summit. On December 16, 2010, Basel III was officially issued by the Basel Committee on Banking Supervision. 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 capital adequacy ratio requirement, which is aimed at promoting the build-up of buffered 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 line with the reform of Basel Accords and the implementation of Basel III, on April 27, 2011, the CBRC promulgated the Guiding Opinions on the Implementation of New Regulatory Standards in China's Banking Industry (《中國銀監會關於中國銀行業實施新監管標準的指導意見》), which set out the key targets and principles for the reform of China's capital regulatory framework. On June 1, 2011, the CBRC issued the Administrative Measures on the Leverage Ratio of Commercial Banks. On June 7, 2012, the CBRC issued Capital Administrative Measures (Provisional) which came into effect on January 1, 2013 and abolished the Administrative Measures for Capital Adequacy Ratio of Commercial Banks (《商業銀行資本充足率管理辦法》) and related guidelines.

In January 2014, the Basel Committee issued the Leverage Ratio Framework and Disclosure Requirements in the Third Installment of Basel Accords (《第三版巴塞爾協議槓桿率框架和披露要求》), which revised the international rules in relation to leverage ratio. According to the new rules of leverage ratio issued by the Basel Committee, in January 30, 2015, the CBRC revised the Administrative Measures on the Leverage Ratio of Commercial Banks which was issued on June 1, 2011, and put forward clearer and stricter requirements for the disclosure of leverage ratio of commercial banks.

LOAN CLASSIFICATION, ALLOWANCES AND WRITE-OFFS

Loan Classification

On July 3, 2007, the CBRC issued the Guidelines of Risk-based Classification of Loans (《貸款風險分類指引》), pursuant to which, commercial banks in China are required to 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". Loans classified as substandard, doubtful or loss are regarded as non-performing. The primary factors for evaluating the repayment ability of borrowers include the borrower's cash flow, financial conditions and other non-financial factors that affect the loan repayment ability.

Loan Loss Allowance

According to the Guidelines of Risk-based Classification of Loans (《貸款風險分類指引》), loans classified as subordinated, doubtful or loss are regarded as non-performing, for which commercial banks shall make full allowance for loan loss and write off loan loss on a timely manner pursuant to relevant requirements based on loan classification.

Under the Guidelines on Bank Loan Loss Allowance (《銀行貸款損失準備計提指引》) promulgated by the PBoC on April 2, 2002, commercial banks are required to make a general loan loss allowance on a quarterly basis and to have a general allowance of not less than 1% of the loan balance at the end of the year. The guidelines provide additional guidance on the proportion of specific allowance for each loan category: 2% for special mention loans; 25% for substandard loans; 50% for doubtful loans and 100% for loss loans. Allowance for losses of substandard and doubtful loans may be set aside within a floating range of 20%. Commercial banks may, on a quarterly basis, make special allowance 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).

In accordance with the Administrative Measures for Loan Loss Allowance of Commercial Banks (《商業銀行貸款損失準備管理辦法》) promulgated by the CBRC on July 27, 2011 and became effective on January 1, 2012, the adequacy ratio of loan loss allowance of commercial banks is assessed based on its allowance to total loan ratio and its allowance to non-performing loan ratio, the benchmarks of which are 2.5% and 150%, respectively. The higher of the two ratios will be taken as the supervisory standard. Systematically important banks identified by banking regulatory authorities are required to reach the standard by the end of 2013, and non-systematically important banks are required to reach such standard by the end of 2016. Those failing to reach the standard by the end of 2016 are required to formulate a plan on how to reach such standard, submit the same to banking regulatory authorities and reach such standard by the end of 2018 at the latest.

Supervision of Loan Classification and Loan Loss Allowance

Commercial banks are required to report to the CBIRC information regarding loan classification and loan loss allowance on a regular basis via quarterly report and annual report. Pursuant to the Administrative Measures for Loan Loss Allowance of Commercial Banks that took effect on January 1, 2012, banking regulatory authorities can issue risk notices to a commercial bank and require remediation to be made accordingly if the commercial bank fails to meet the relevant minimum loan loss allowance standards for consecutive three months. Banking regulatory authorities have the power to take further regulatory actions pursuant to PRC Banking Supervision and Regulatory Law if such non-compliance lasts for consecutive six months.

Bulk Transfer of Non-performing Assets

The MOF and the CBRC promulgated the Administrative Measures for 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》) on January 18, 2012, which provide that financial enterprises may carry out bulk transfer of their non-performing credit assets and non-credit assets generated from their business operations to asset management companies, mainly including loans in the substandard, doubtful and loss categories recognized according to statutory processes and standards, written-off book assets, repossessed assets and other non-performing assets. The non-performing 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 terms in borrowing contracts or guarantee contracts, and other assets restricted to transfer by national laws and regulations.

Loan Write-offs

Under the regulations issued by the CBRC, the PBoC and the MOF, commercial banks are required to establish a strict audit and approval 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 and became effective since October 1, 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.

Allowance and Statutory General Reserve for Impairment Losses

On March 30, 2012, the MOF issued the Administrative Measures for the Provisioning for Reserves of Financial Enterprises (《金融企業準備金計提管理辦法》), which requires the balance of general reserve to be generally no less than 1.5% of the ending balance of risk-bearing assets of the financial institutions. Financial enterprises that have adopted the standardized approach to calculate the statutory general reserve should temporarily use the following standard risk weightings for credit assets: 1.5% for normal loans, 3% for special mention loans, 30% for substandard loans, 60% for doubtful loans and 100% for loss loans. If the balance of general reserve of a financial enterprise fails to reach 1.5% of the ending balance of risk-bearing assets at one-time, the financial enterprise is allowed to achieve the requirement within a certain period of time, in principle not exceeding five years.

Other Operational and Risk Management Ratios

Capital Administrative Measures (Provisional) and Core Indicators (Provisional) were promulgated by the CBRC.

The table below sets forth the required ratios of the Core Indicators and the ratios of the Bank on an unconsolidated basis under PRC GAAP as of or for the years ended December 31, 2016, 2017 and 2018.

Indicator categories	Primary indicators	Secondary indicators	Requirement (%)	As of December 31 2016	2017	2018
Risk Level						
Liquidity Risk.	Liquidity ratio	RMB and foreign currency	≥25	75.54%	49.78%	83.59%
	Core liabilities ratio		≥60	60.87%	59.32%	60.42%
	Liquidity gap ratio		≥-10	13.97%	9.77%	39.66%
Credit risk	Non-performing asset ratio		≤4	0.68%	1.24%	1.51%
		Non-performing loan ratio	≤5	1.86%	1.61%	1.87%
	Credit exposure to a single group customer		≤15	13.39%	11.19%	12.72%
		Loan exposure to a single customer	≤10	7.47%	7.28%	9.27%
	Overall credit exposure to related parties		≤50	4.30%	3.58%	31.65%
Risk Cushion						
Profitability	Cost-to-income ratio		≤45	40.12%	37.35%	35.88%
	Return on assets		≥0.6	0.62%	0.65%	0.61%
	Return on equity		≥11	10.98%	10.16%	8.54%
Capital adequacy . . .	Capital adequacy ratio		≥10.5	12.50%	12.52%	12.98%
		Tier-one capital adequacy ratio	≥8.5	9.65%	10.16%	10.62%
		Core tier-one capital adequacy ratio	≥7.5	9.65%	10.16%	10.62%

In addition, Core Indicators (Provisional) set out certain other indicators, including ratios relating to interest rate risk sensitivity, loss rate of operational risk and loan migration. However, the specific indicator has not yet been specified, and the CBIRC may formulate regulatory requirements regarding to such ratios in the future.

As of December 31, 2017, the Bank's core liabilities ratio was 59.32%, failing to meet the requirement under Core Indicators (Provisional). The Bank's failure to meet the core liabilities ratio requirement was primarily due to low growth rate of core liabilities while the growth of gross liabilities was fast, which we believe does not shed light on any material liquidity issues.

As advised by King & Wood Mallesons, our PRC legal advisor, Core Indicators (Provisional) provides no penalties in respect of any failure to meet the core liabilities ratio contained therein. According to the Core Indicators (Provisional), each core indicators mentioned therein should not be directly used as a base of any administrative penalty, subject to any laws, administrative regulations and departmental rules. Pursuant to the Administrative Measures on the Liquidity Risk of Commercial Banks (Trial) (《商業銀行流動性風險管理辦法(試行)》) issued by the CBRC on January 17, 2014 and effective on March 1, 2014 and further amended on September 2, 2015 and the Administrative Measures on the Liquidity Risk of Commercial Banks (《商業銀行流動性風險管理辦法》) issued by the CBIRC on May 23, 2018 and effective on July 1, 2018 which will replace the Administrative Measures on the Liquidity Risk of Commercial Banks (Trial) upon its effectiveness, core liabilities ratio is no longer treated as regulatory indicators but are used as references.

To improve its core liabilities ratio and manage liquidity risks, the Bank has been attracting time deposits from customers through marketing efforts and monitoring the interbank liabilities. As a result, as of December 31, 2016 and 2018, the Bank's core liabilities ratio was 60.87% and 60.42%, respectively, which met the core liabilities ratio requirement under Core Indicators (Provisional).

As of December 31, 2016, 2017 and 2018, the Bank's return on equity was 10.98%, 10.16% and 8.54%, respectively, which failed to meet the requirement under Core Indicators (Provisional). The Bank's return on equity as of December 31, 2016 was 10.98%, falling below the minimum requirement of 11%, primarily due to a decrease in our net interest income in 2016 as a result of the following: (i) along with the deepening of interest rate liberalization in 2015 and the intensified pricing competition in the PRC banking industry, our net interest spread narrowed and profitability decreased in 2016; (ii) in response to the regulatory policies in 2016 which encouraged banks to reduce financing cost for enterprises to support real economy and supply-chain structural reform, we adjusted and reduced interest rates for loans granted to certain enterprises; and (iii) although the economy of Shanxi Province began to rebound in the second half of 2016, it still continued its previous development trend in the first half of 2016 and the signs of economic recovery were not relatively obvious until the end of 2016, so we arranged our supply of credit cautiously in line with the principle of prudence and the increase of loans granted did not meet our expectation in 2016, which together with the decreased interest rates resulted in a decrease in our income from loan business in 2016.

The declines in the Bank's return on equity in 2017 and 2018 were primarily due to its receipt of cash injections amounting to RMB4,190 million and RMB914 million in 2017 and 2018, respectively, pursuant to a capital contribution plan approved by CBRC Shanxi Office in 2017. For more details, please see "Our History and Development – Our History – Changes in the Registered Capital of our Bank". These cash injections led to a significant increase in the

Bank's equity, thereby diluting its return on equity. Had the Bank not received these cash injections, its return on equity as of December 31, 2017 and 2018 would have been 12.28% and 12.18%, respectively, meeting the requirements of Core Indicators (Provisional).

As advised by King & Wood Mallesons, our PRC legal advisor, Core Indicators (Provisional) provides no penalties in respect of the failure to meet the return on equity requirement. As stated under Core Indicators (Provisional), unless otherwise stipulated by laws, administrative regulations and department rules, Core Indicators (Provisional) shall not be taken as the direct basis of any administrative penalties. In the future, we will seek to meet the requirement of 11% through various measures, such as optimizing liability structure to lower the average cost and expanding our income sources. For details of relevant measures, please see "Business – Legal and Administrative Proceedings – Compliance with Core Indicators".

The significant increase in the Bank's overall credit exposure to related parties ratio from 3.58% as of December 31, 2017 to 31.65% as of December 31, 2018 was attributable to the following reasons: (i) according to the requirements of CBIRC Shanxi Office, the Bank expanded the reporting scope of "related parties" under the ratio from shareholders only to shareholders and the group customer to which they belong, and (ii) pursuant to the Interim Measures for the Equity Management of Commercial Banks (《商業銀行股權管理暫行辦法》), which became effective in 2018, the measurement scope of credit balance under the ratio was expanded to include SPV investments and other businesses where credit risks are substantively assumed by the Bank or wealth management products issued by the Bank.

CORPORATE GOVERNANCE AND INTERNAL CONTROLS

Corporate Governance

PRC Company Law, PRC Commercial Banking Law and other laws, regulations and regulatory documents provided specific requirements for corporate governance. Among them, Corporate Governance Guidelines (《公司治理指引》) issued by the CBRC on July 19, 2013, which requires commercial banks to establish a sound corporate governance system and a clear organizational structure, with management and supervisory powers, functions and responsibilities being clearly split among the board, the supervisory board and the senior management.

Internal Controls

In accordance with Corporate Governance Guidelines (《公司治理指引》) promulgated by the CBRC on July 19, 2013, which provided commercial banks are required to establish an accountability system for a sound internal control environment. Under this system, the board of directors and senior management are required to maintain their respective accountability for the effectiveness of internal control and are required to be liable for material losses caused by a breakdown in internal control. In addition, the supervisory board is required to perform its regulatory functions and responsibilities by supervising directors and senior management, refining the system and rules of internal control and performing its internal control and supervisory obligations. Commercial banks are required to establish a relatively independent department for internal control supervising and evaluating, which may reports directly to the board of directors, supervisory board and senior management on the effectively supervising and evaluating of development of the internal control system and its enforcement.

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

Pursuant to the Measures for the Information Disclosure of Commercial Banks (《商業銀行信息披露辦法》) promulgated and implemented by the CBRC on July 3, 2007, a PRC commercial bank is required to publish an annual report (including an audited financial statement) within four months of the end of each financial year disclosing its financial position and operational results. The board of directors of the commercial banks shall be responsible for the disclosure of its information. Information disclosure documents include periodical reports, interim reports and other relevant information required by the regulations. The commercial banks shall disclose information via annual reports, website or other methods to facilitate timely access to the disclosed information by the shareholders and other stakeholders. The listed commercial banks shall also disclose information in compliance with the relevant provisions promulgated by the securities regulatory authority.

Related Party Transaction

The Administrative Measures on Connected Transactions with Insiders and Shareholders of Commercial Banks (《商業銀行與內部人和股東關聯交易管理辦法》) promulgated by the CBRC on April 2, 2004, which provided stringent and detailed requirements on the related party transactions of PRC commercial banks, requires PRC commercial banks to adhere to the principles of good faith and fairness in conducting related party transactions. PRC commercial banks are not allowed to grant unsecured loans to related parties. Related party transactions of commercial banks are required to be based on commercial principles and on terms no more favorable than similar transactions with non-related parties.

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

RISK MANAGEMENT

Since its inception, the 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. For the guidelines concerning loans and credit to certain specific industries and customers and measures in respect of the implementation of Basel Accords, please see the subsections headed "– Regulation on Principal Commercial Banking Activities – Loan Business" and "– Supervision over Capital Adequacy – Basel Accords". The CBRC also issued 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 a basis of supervising the risk management of PRC commercial banks. The CBRC established requirements for certain ratios relating to risk levels and risk provisions in the Core Indicators for the Risk Management of Commercial Banks (Provisional) (《商業銀行風險監管核心指標(試行)》) and is expected to establish requirements for certain ratios relating to risk mitigation for the purpose of evaluating and monitoring the risks of PRC commercial banks. Please see the subsection headed "– Loan Classification, Allowances and Write-offs – Other Operational and Risk Management Ratios". The CBRC periodically collects data through off-site surveillance to analyze such indicators and evaluate and issue early warnings of the risks on a timely basis.

Latest Regulatory Requirements of the Banking Regulatory Authorities in China 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》), and 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》). 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.

In April 2017, the CBRC successively issued the Guiding Opinions of the CBRC on Improving the Quality and Efficiency of the Banking Industry in Serving the Real Economy (《中國銀監會關於提升銀行業服務實體經濟質效的指導意見》), the Notice of the CBRC on Concentrated 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》) and the Guiding Opinions of the CBRC on Risk Prevention and Control of the Banking Industry (《中國銀監會關於銀行業風險防控工作的指導意見》) and other documents. In January 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》). These documents regulated the risk control, business management, classified regulation, stable operation, improved service quality and other aspects of 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 Directors and the senior management without approval from regulators of their qualifications; performance of 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 consumption 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.

Risk Management and Prevention

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 risks 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, internal rules and policies, 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 ensure the liquidity demand can be fulfilled in a timely manner and at reasonable cost.

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 according to the actual situation of banks in China with reference to international regulatory standards, 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.

All credit businesses where banks bear credit risks are included in regulatory framework for large risk exposures, which specifically include six categories: one, the on-balance sheet credit business such as loan, bond investments and deposits with banks; two, business of investment in asset management products or asset securitization products; three, transactions of bond, stock and their derivatives; four, OTC derivatives and securities finance transactions; five, off-balance sheet business such as guarantee and commitments; and six, other businesses that are carried out in accordance with the principle of substance is more important than form and whose credit risks are borne by the commercial banks.

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, which increased regulatory requirements for a single bank's risk exposures to a single interbank customer; defined the upper limit of total amount for a single bank's credit to a single company or group, further standardized interbank business, and helped guide banks to invest more funds in real economy and to gradually get rid of dependence on interbank economy.

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) (《中國銀行保險監督管理委員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 and its significance for enhancing the banking institution's overall credit risk management capacity. According to this notice, banking institutions shall implement the joint credit grant mechanism to work jointly on the prevention, warning and solution of risks associated with 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

On June 19, 2014, the CBRC promulgated the Internal Guidelines on Supervisory Ratings for Commercial Banks (《商業銀行監管評級內部指引》), which require all commercial banks legally established in China (not applicable to newly-established commercial banks) to be evaluated by the CBRC based on a supervisory rating system. Under these guidelines, the capital adequacy, asset quality, management quality, profitability, liquidity and exposure to market risk of commercial banks are evaluated and scored by the CBRC on a continuous basis.

Each bank is classified into one of six supervisory rating categories based on the scores. The results of ratings will serve as the basis for the regulatory authorities to implement their classified supervision and supervisory measures. Such supervisory rating system has not been disclosed to the public.

OWNERSHIP AND SHAREHOLDER RESTRICTIONS

Regulations on Equity Investment in Banks

According to the Implementation Measures of the CBIRC on Administrative Licensing 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)》) promulgated by the CBIRC on August 17, 2018, an application for change by a city 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 provincial local offices of the CBIRC. An application by a city commercial bank to modify the shareholders that hold not less than 1% but less than 5% of its total amount of capital or shares shall be reported to the provincial local offices of the CBIRC within 10 days after the transfer of the equity.

In particular, this regulation sets out that, 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, (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 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.

Regulations on Equity Management of Banks

The Interim Measures for Management of Commercial Bank Equity (《商業銀行股權管理暫行辦法》) was promulgated by the CBRC on January 5, 2018, which applies to commercial banks established in the People's Republic of China 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 a commercial bank shall manage its substantial shareholders, controlling shareholders, actual controllers, related parties, parties acting in concert and ultimate beneficiaries as its own related parties under the transparency principle; (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 actual controllers and ultimate beneficiaries, and specify their related relationship or acting-in-concert relationship with other shareholders; (3) unless otherwise required by the Measures, the same investor and its related parties and parties acting in concert, as substantial shareholders, shall not invest in more than two commercial banks, or shall not control more than one commercial bank; (4) unless otherwise required by the Measures, substantial shareholders of a commercial bank shall not transfer shareholdings they held and hold shares of the commercial bank by ways of issuing, managing or otherwise controlling financial products 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, actual 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, actual controllers, related parties, parties acting in concert and ultimate beneficiaries, by the commercial bank shall not exceed 10% of the commercial bank's net capital. The total credit balance granted to the individual substantial shareholder and its controlling shareholders, actual controllers, related parties, parties acting in concert and ultimate beneficiaries by the commercial bank shall not exceed 15% of the commercial bank's net capital; (8) specifying the situations of shareholders' violations and stipulating that the regulators may take measures including restricting shareholders' rights and imposing an order on controlling shareholders to transfer their equity; (9) financial products can invest in shares of listed commercial banks, subject to the restriction that the total number of shares being invested by financial products that are controlled by individual investor, issuer, manager or their respective actual controllers, affiliates or parties acting in concert, shall not exceed 5% of relevant commercial banks. The substantial shareholder of a commercial bank shall not hold shares or equity of such commercial bank through financial products they issue, manage or control through any means. For the definition of "substantial shareholder" referred in this section, please see "Risk Factors – Risks Relating to the PRC Banking Industry – Investments in commercial banks in China are subject to restrictions that may adversely affect the value of your investment".

Restrictions on Shareholders

In accordance with the Notice of the MOF, PBoC, CBRC, CSRC, CIRC on the Regulation of Internal Staff Shares in Financial Enterprises (《財政部、中國人民銀行、銀監會、證監會、保監會關於規範金融企業內部職工持股的通知》) which was promulgated by the MOF, PBoC and the CBRC on September 15, 2010, the proportion of internal staff shares shall not exceed 20% of the total share capital, and the proportion of shares held by a single staff shall not exceed 5‰ of the total share capital. In addition, upon issuance of new shares through public offering, the proportion of shares hold by internal staff shall not exceed 10% of the total share capital, and the proportion of shares hold by a single staff shall not exceed 1‰ or 500 thousand shares, whichever is lower. No approval for the PRC Government on proposed public offering will be granted if relevant bank fail to meet these requirements.

Corporate Governance Guidelines imposes additional requirements on shareholders of commercial banks. For example, shareholders, especially substantial shareholders, are required to support the reasonable capital planning formulated by the board of directors of a commercial bank so that the capital of the bank can meet the regulatory requirements on an on-going basis. If the capital of a commercial bank fails to meet the regulatory requirements, it is required to develop a capital replenishment plan to increase capital adequacy ratio to meet regulatory requirements within a specified period of time, and its capital is required to be replenished by means of increasing core capital. Under such circumstances, substantial shareholders cannot obstruct capital injection by other shareholders or the participation of new qualified shareholders. If shareholders, especially substantial shareholders, of a PRC commercial bank fail to repay outstanding loans when overdue, the voting rights of such shareholder at the shareholders' general meetings, as well as the voting rights of the director(s) designated by such shareholder at board meetings, shall be subject to restrictions.

In the Interim Measures for Management of Commercial Bank Equity (《商業銀行股權管理暫行辦法》), the PRC Government sets out further restriction on substantial shareholders of commercial banks in China, such as (i) 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 improperly interfere the authority of board of directors and senior management team to make decision or manage business operations in the way as authorized by articles of associations; (ii) 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 damage legal right of deposit customers, the relevant bank, or other shareholders; (iii) substantial shareholders of commercial banks shall establish effective risk isolation mechanism to prevent risk proliferation among shareholders, within the bank and among other related entities; (iv) substantial shareholders shall prevent conflict of interest through properly manage nomination of key positions in commercial banks and other related entities, including director, supervisor or members of senior management team.

Stringent Management on Business Operations

Recent regulatory development mainly focused on financial market business, covering two key areas: (i) encouraging banking institutions to optimize loan portfolio and improve credit support to real economy, and (ii) taking measures to reduce financing costs of real economy and simplify structure of financial products through decreasing the number of entities involved in flow of fund, including decreasing channel-type business.

Improve the Efficiency to Serve Real Economy

The CBRC issued the Notice of the General Office of the CBRC on Carrying out the Special Campaign against the "Inappropriate Innovations, Inappropriate Transactions, Inappropriate Incentives, and Inappropriate Collection of 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》) on April 6, 2017, which requires banking institutions to focus on development of main business segments and prevention of compliance risks. It also requires banking institutions to adopt stringent measures in regulating business operation, promoting innovation and enhancing risk management and internal control, in line with the general principles of "improving efficiency of serving real economy, effectiveness of financial risks mitigation and protection of investors' legal rights". The CBRC issued the Guidance on Enhancing the Quality and Efficiency of the Banking Sector to Serve the Real Economy (《關於提升銀行業服務實體經濟質效的指導意見》) on April 7, 2017, which requires banking institutions to focus on serving real economy through (i) ensuring investment funds flow into real economy sectors in line with relevant policies in China by conducting thorough due diligence on ultimate financing parties and underlying assets and simplifying structure of financial products by decreasing the number of entities involved in flow of fund; (ii) innovating products and services with specific features to address demands of enterprises engaging in real economy sector, while ensuring risk management system could properly cover all innovative business where internal control and full disclosure of information shall always be treated with priority. In addition, this guidance requires banking institutions to conduct routine self-investigations and make timely rectifications accordingly.

New requirements to business conducts

On April 10, 2017, the CBRC promulgated the Notice of the CBRC on Effectively Covering the Supervision Shortness and Enhancing the Supervision Efficiency (《中國銀監會關於切實彌補監管短板提升監管效能的通知》). Under this notice, banking institutions heavily rely on interbank business to source fund or has substantial increase in interbank business operations shall conduct stringent inspection on status of maturity mismatch and effectiveness of liquidity management. For banking institutions with large investment in interbank financial products, this notice asks for stringent inspections with particular focus on sufficiency of due diligence towards ultimate financing parties and the amount of provision and capital. In addition, the notice requires banking institutions with substantial exposure to wealth management business operations to conduct stringent inspection on the implementation of "independent management, independent booking and independent accounting (單獨管理、單獨建賬、單獨核算)" and ensure sufficient disclosure on products and associated risks to consumers.

On June 21, 2017, the CBRC promulgated the Notice of the CBRC on Further Regulating the Taking of Public Fund Deposits by Banking Financial Institutions (《中國銀監會關於進一步規範銀行業金融機構吸收公款存款行為的通知》). The Notice requires the banking institutions to take proper measures in deposit business involving public fund, including enhancement of auditing and supervision of the public fund deposits and prohibition of tunneling, etc. The banking financial institutions shall revitalize existing funds of relevant bank accounts by providing good, efficient and safe services, increase the comprehensive benefit of fund deposits, and improve the preservation and appreciation value of clients' funds.

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》), which require financial institutions to adhere to the fundamental objective of serving the real economy, prevent funds from leaving the real economy for the virtual economy to circulate within the financial system, prevent excessively complicated products from intensifying the transmission of the risks among industries, markets, and regions, and develop unified standards and rules directed in priority at problems in asset management business, such as multi-layered nesting, unclear leverage, serious arbitrage, and frequent speculation.

In addition, the PRC Company Law and relevant rules and regulations promulgated by the CBRC impose certain restrictions on the ability of a commercial bank's shareholders to pledge their shares. For example, a commercial bank may not accept its own shares as collateral. According to the Guidelines on Corporate Governance of Commercial Banks: (1) any shareholder of a commercial bank must give prior notice to the board of directors of the bank if it wishes to pledge its shares as collateral; and (2) where the balance of loans extended by a commercial bank to a shareholder exceeds the audited net value of his or her equity for the preceding year, the shareholder cannot use his or her stake in the bank as pledge. On November 14, 2013, the CBRC promulgated the CBRC Notice on Enhanced Management of Pledge of Equity Interest in Commercial Banks (《中國銀監會關於加強商業銀行股權質押管理的通知》), pursuant to which commercial banks are required to clearly stipulate the following matters in their articles of associations in addition to those as stipulated in the foresaid Corporate Governance Guidelines: (1) where a shareholder, who has representation on the board of directors or the board of supervisors, or directly, indirectly or jointly holds or controls more than 2% of share capital or voting rights in the bank pledges his equity interests in the bank, it shall make a filing to the board of directors of the bank prior to the pledge. The filing shall state the basic information of the pledge, including the reasons for the pledge, the number of shares involved, the term of pledge and the particulars of the pledgees. Where the board of directors considers the pledge to be materially adverse to the stability of the bank's shareholding structure, the corporate governance as well as the control of risk and connected transactions, the filing shall not be accepted. The director(s) nominated by a shareholder proposing to pledge his shares in the bank shall abstain from voting at the meeting of the board of directors at which such proposal is considered; (2) upon the registration of pledge of equity interests, the shareholder involved shall provide the bank with the relevant information in relation to the pledge of equity interests in a timely manner, so as to facilitate the bank's risk management and information disclosure compliance; and (3) where a shareholder pledges 50% or more of his equity interests in the bank, the voting rights of such shareholder at the shareholders' general meetings, as well as the voting rights of the director(s) designated by such shareholder at board meetings, shall be subject to restrictions.

Pursuant to the requirements under the CBRC Notice on Enhanced Management of Pledge of Equity Interest in Commercial Banks, when a commercial bank fails to meet the regulatory requirements, PRC regulatory authorities may require the bank to formulate rectification plans and may take corresponding regulatory actions if necessary.

To satisfy the requirements under the CBRC Notice on Enhanced Management of Pledge of Equity Interest in Commercial Banks, the Bank has amended its articles of association by adding voting restriction provisions which will be subject to the approval of the CBIRC Shanxi Office and become effective upon the listing of the H Shares.

ANTI-MONEY LAUNDERING REGULATION

The PRC Anti-money Laundering Law (《中華人民共和國反洗錢法》), which became effective on January 1, 2007, sets out the responsibilities of the relevant financial regulatory authorities regarding anti-money laundering, including formulating anti-money laundering rules and regulations for financial institutions and requires 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 bodies for anti-money laundering or designate internal bodies to be responsible for anti-money laundering work. On the same day, the PBoC promulgated the Administrative Measures for the Financial Institutions' Report of Large-Sum Transactions and Doubtful Transactions (《金融機構大額交易和可疑交易報告管理辦法》) (reamended on December 28, 2016 and July 26, 2018) pursuant to which upon the detection of any suspicious transactions or transactions involving large amounts, commercial banks are required to report the transactions to the China Anti-money Laundering Monitoring & Analysis Center. Where necessary and pursuant to appropriate judicial proceedings, commercial banks are required to cooperate with government authorities in preventing money laundering activities and in freezing assets. The PBoC supervises and conducts on-site examinations of commercial banks' compliance with anti-money laundering laws and regulations and may impose penalties for any violations thereof in accordance with the PRC Anti-money Laundering Law and Anti-money Laundering Regulations for Financial Institutions.

On June 21, 2007, the PBoC, the CBRC, CSRC and CIRC jointly issued the Administrative Measures for the Identification of Clients and the Keeping of Clients' Identity Information and Transaction Records by 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》), pursuant to which commercial banks are required to 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.

USE OF FUNDS

Under PRC Commercial Banking Law, commercial banks are not permitted to engage in trust investment or securities business, or invest in real property other than for their own use, or invest in non-banking financial institutions and enterprises, unless otherwise approved by the relevant government authorities or otherwise specified in relevant laws and regulations. The use of funds by commercial banks is limited to the following: (1) short-term, medium-term and long-term loans; (2) acceptance and discounts on instruments; (3) interbank deposits; (4) trading of government bonds; (5) trading of bonds issued by financial institutions; (6) investment in banking institutions; and (7) other uses as may be approved by the relevant government authorities.

REGULATORY AND SHAREHOLDERS' APPROVALS

The Bank has obtained the Shareholders' approval for the proposed listing. See "Appendix VII – Statutory and General Information – 1. Further Information About Our Bank – D. Resolutions of Our Shareholders" in this prospectus.

The Bank also obtained approvals from CBIRC Shanxi Office and CSRC for the Global Offering and the application to list the H Shares on the Hong Kong Stock Exchange, on January 4, 2019 and June 4, 2019, respectively.

OUR HISTORY

Overview

As approved by PBoC, our Bank was established as a joint stock commercial bank on October 16, 1998 under the name of "Taiyuan City Commercial Bank Co., Ltd. (太原市商業銀行股份有限公司)", which was established and promoted jointly by Taiyuan Municipal Finance Bureau, and the original shareholders of 47 urban credit cooperatives in Taiyuan and Taiyuan Urban Credit Cooperative Union (太原市城市信用合作社聯合社). At the time of establishment, the registered capital of our Bank was RMB194,265,557, divided into 194,265,557 Domestic Shares with a nominal value of RMB1.00 each.

On December 30, 2008, the CBRC approved the change of the name of our Bank from "Taiyuan City Commercial Bank Co., Ltd. (太原市商業銀行股份有限公司)" to "Jinshang Bank Co., Ltd. (晉商銀行股份有限公司)".

Our Bank's principal businesses include corporate banking, retail banking and financial markets business. We provide our corporate banking customers with a wide range of products and services, including corporate loans, bill discounting, corporate deposits, transactional banking services, investment banking services, and other fee- and commission-based products and services. 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 products and services. Our financial markets business primarily consists of interbank market transactions, investment management, wealth management, debt securities distribution, and bill discounting and rediscounting.

Milestones

Key milestones in our development are as follows:

Time	Events
October 1998	Our Bank was established in Taiyuan, Shanxi Province, the PRC.
February 2009	After the change of its name to "Jinshang Bank Co., Ltd. (晉商銀行股份有限公司)" in December 2008, our Bank held the opening ceremony.
April 2009	Our Bank obtained the qualification for providing time deposit services for the central treasury's cash management business as a commercial bank.
October 2009	Our Bank launched the new system for core businesses.
April 2010	Our Bank launched the online banking system.
June 2010	Our Bank introduced the gold card and platinum card of the Bank's debit cards and held the promotion conference for personal financial products in Taiyuan.

Time	Events
January 2013	Our Bank's total assets reached RMB100.0 billion.
May 2013	Our Bank launched the "Ka Yi Dai (卡易貸)" business.
November 2013	Our Bank launched mobile banking (clients-end).
June 2014	Our Banks began to provide certain banking services through WeChat.
January 2015	Our Bank issued its first securitization of credit assets products on the interbank market.
	Our Bank became the first financial institution based in Shanxi Province to obtain approval from the CBRC to conduct ABS business.
September 2015	Our Bank launched the direct bank services.
October 2015	Our Bank launched its first interbank certificates of deposit.
November 2015	Our Bank launched special savings products (特色儲蓄產品) "Xian De Li (先得利)" and "Yi Ben Wan Li (一本萬利)".
May 2016	Our Bank's first phase certificates of deposits were issued.
October 2016	Our Bank obtained the preliminary qualification for underwriting debt financing instruments issued by non-financial enterprises.
February 2017	Our Bank launched a wealth management comprehensive quantitative index named "China Wealth Management Income Index (中國財富管理收益指數)", which was developed jointly with a financial data service enterprise with strong data analytical capability, under the wealth management brand name of "Jin Sheng Cai Fu (晉升財富)".
June 2017	Our Bank launched the credit cards business.
July 2017	Our Bank's fund depository business was launched.
December 2017	Our Bank received the qualification to underwrite treasury saving bonds for the years from 2018 to 2020 as the only city commercial bank based in Shanxi Province that is authorized to underwrite treasury saving bonds.
January 2018	Our Bank's total assets reached RMB200.0 billion.
May 2018	Our Bank launched its first closed-end net worth wealth management products.

Time	Events
November 2018	As approved by the preparatory team of CBIRC Shanxi Office, our Bank obtained the qualification to trade basic derivatives products and became the first corporate financial institution with such qualification in Shanxi Province.
February 2019	Our Bank obtained the Class-B lead underwriter qualification for underwriting debt financing instruments issued by non-financial enterprises.

Changes in the Registered Capital of our Bank

At the time of establishment, the registered capital of our Bank was RMB194,265,557, divided into 194,265,557 Domestic Shares with a nominal value of RMB1.00 each. Since the establishment of our Bank, there have been several increases of the registered capital of our Bank.

As of the Latest Practicable Date, the registered capital of our Bank was RMB4,868,000,000, divided into 4,868,000,000 Domestic Shares with a nominal value of RMB1.00 per Share. The changes in the registered capital of our Bank since its establishment are set forth as follows:

Time[1]	Changes in the registered capital
December 31, 2006[2]	The registered capital of our Bank was increased from RMB194,265,557 to RMB594,265,557 by issuing and allotting 400,000,000 new Domestic Shares with a nominal value of RMB1.00 each to Taiyuan Municipal Finance Bureau.
May 7, 2008	The registered capital of our Bank was increased from RMB594,265,557 to RMB605,011,894 by conversion of undistributed profits into share capital of a total amount of 10,746,337 Domestic Shares.
December 25, 2009	The registered capital of our Bank was increased from RMB605,011,894 to RMB2,391,938,808 by issuing and allotting 1,786,926,914 new Domestic Shares with a nominal value of RMB1.00 each to nine new investors.[3]
May 28, 2010	The registered capital of our Bank was increased from RMB2,391,938,808 to RMB2,468,000,000 by issuing and allotting 76,061,192 new Domestic Shares with a nominal value of RMB1.00 each to four new investors.[4]
December 15, 2011	The registered capital of our Bank was increased from RMB2,468,000,000 to RMB3,268,000,000 by issuing and allotting 800,000,000 new Domestic Shares with a nominal value of RMB1.00 each to 15 investors.[5]

Time[1]	Changes in the registered capital
February 28, 2018	The registered capital of our Bank was increased from RMB3,268,000,000 to RMB4,868,000,000 by issuing and allotting 1,600,000,000 new Domestic Shares with a nominal value of RMB1.00 each to 11 investors.[6]

Notes:

1. The time stated here represents the issuance date of the new business license with increased registered capital.

2. This is the date of the verification report issued by the accounting firm confirming that our Bank had received the capital from Taiyuan Municipal Finance Bureau.

3. The then nine new investors are Shanxi Finance Bureau, Shanxi International Electricity Group Limited Company (山西國際電力集團有限公司), Shanxi Lu'an Mining (Group) Co., Ltd. (山西潞安礦業(集團)有限責任公司), Shanxi Coking Coal Group Co., Ltd. (山西焦煤集團有限責任公司), Shanxi Jincheng Anthracite Coal Mining Group Co., Ltd. (山西晉城無煙煤礦業集團有限責任公司), Changzhi Nanye Industry Group Co., Ltd. (長治市南燁實業集團有限公司), Taiyuan Steel (Group) Co., Ltd. (太原鋼鐵(集團)有限公司), Shanxi Coal Asset Operation Co., Ltd. (山西省煤炭資產經營有限責任公司), and Shanxi Zifeng Group Co., Ltd. (山西紫風集團有限公司).

4. The then four new investors are Changzhi Sunshine Holiday Hotel Co., Ltd. (長治市陽光假日酒店有限公司), Taiyuan Yiyuan Tong Trade Co., Ltd. (太原市一元通商貿有限公司), Shanxi Zongye Industrial and Trade Co., Ltd. (山西宗業工貿有限公司), and Taiyuan Shiyou Trade Co., Ltd. (太原市世友商貿有限公司).

5. The then 15 investors are Shanxi Liansheng Energy Co., Ltd. (山西聯盛能源有限公司), Changzhi Huashengyuan Mining Co., Ltd. (長治市華晟源礦業有限公司), Changzhi Nanye Industry Group Co., Ltd. (長治市南燁實業集團有限公司), Shanxi Loujun Mining Group Co., Ltd. (山西樓俊礦業集團有限公司), Shanxi Jiexiu Luxin Coal Gasification Co., Ltd. (山西省介休市路鑫煤炭氣化有限公司), Shuozhou Jinyuan Coal Co., Ltd. (朔州晉源煤炭有限公司), Shanxi Huifeng Xingye Coking Coal Group Co., Ltd. (山西匯豐興業焦煤集團有限公司), Huatong Road and Bridge Group Co., Ltd. (華通路橋集團有限公司), Shanxi Puda Coal Industry Group Co., Ltd. (山西普大煤業集團有限公司), Linfen Wanxinda Coking Co., Ltd. (臨汾萬鑫達焦化有限責任公司), Shanxi Dachang Automobile Group Co., Ltd. (山西大昌汽車集團有限公司), Shanxi Zifeng Group Co., Ltd. (山西紫風集團有限公司), Taiyuan Shiyou Investment Co., Ltd. (太原市世友投資有限公司), Shanxi Tongpei Coal Comprehensive Operation Company (山西統配煤礦綜合經營總公司) and Beijing Xiangtian River Investment and Consulting Co., Ltd. (北京祥天河投資諮詢有限公司).

6. The then 11 investors are Huaneng Capital Service Co., Ltd. (華能資本服務有限公司), Shanxi Financial Investment Holding Group Co., Ltd. (山西金融投資控股集團有限公司), Taiyuan Municipal Finance Bureau, Changzhi Nanye Industry Group Co., Ltd. (長治市南燁實業集團有限公司), Shanxi Lu'an Mining (Group) Co., Ltd. (山西潞安礦業(集團)有限責任公司), Shanxi Coking Coal Group Co., Ltd. (山西焦煤集團有限責任公司), Changzhi Huashengyuan Mining Co., Ltd. (長治市華晟源礦業有限公司), Xiaoyi Jiayu Coal Industry Co., Ltd. (孝義市嘉禹煤業有限公司), Quwo County Lvheng Agricultural Development Co., Ltd. (曲沃縣綠恒農業發展有限公司), Ningwu Luya Mountain Tourism Development Co., Ltd. (寧武蘆芽山旅遊發展有限責任公司), and Shanxi Yurong Property Management Co., Ltd. (山西禹榮物業管理有限公司).

There are certain defects in the above changes in the Bank's registered capital including failure to promptly hold shareholders' meeting, obtain the approval from CBRC Shanxi Office on the change of the articles of association and/or the registered capital, appraise the assets and/or file the appraisal results with competent authorities and register with industry and commerce authorities in a timely manner. Our PRC legal advisors, King & Wood Mallesons, are of the view that these defects have no material and adverse effect on the operation of our Bank and the legality and effectiveness of the changes in the Bank's registered capital, and will not result in any material legal impediment on the Listing under the relevant PRC laws and regulations, because (i) the above changes in the Bank's registered capital had been verified by qualified accounting firms; (ii) there was no dispute on the legality and effectiveness of the changes in the Bank's registered capital as of the Latest Practicable Date; (iii) CBRIC Shanxi

Office, the competent authority, issued a confirmation that the Bank had obtained approvals from the relevant PRC banking regulatory authorities on the above changes in the registered capital; and (iv) Shanxi Government issued a confirmation that the changes in the registered capital of the Bank were true and effective and in compliance with the then existing PRC laws and regulations in general and there was no issue on loss of state-owned assets and no material non-compliance with PRC laws and regulations.

Subsidiary of the Bank

As of the Latest Practicable Date, our Bank had only one subsidiary, Qingxu Village and Township Bank, which was established in Shanxi Province, the PRC on January 19, 2012 with a registered capital of RMB50.0 million. As of the Latest Practicable Date, Qingxu Village and Township Bank was held as to 51.0% by our Bank with the remaining 49.0% held by 13 individual shareholders. The business scope of Qingxu Village and Township Bank mainly includes taking deposits from the public; extending short-term, medium-term and long-term loans; effecting domestic settlements; handling bills acceptance and discount; engaging in interbank lending; engaging in bank card (debit card) business; acting as the issuing agent, cashing agent and underwriter of government bonds; collecting and making payment as agents; insurance agent; and other businesses approved by the PRC banking regulatory authorities.

Issuance of Bonds

Financial bonds

In December 2018, as approved by the preparatory team of CBIRC Shanxi Office and the PBoC, our Bank issued fixed rate financial bonds in an aggregate principal amount of RMB5.0 billion with a term of three years and an interest rate of 4.00%.

Tier-two capital bonds

As approved by the CBRC and PBoC, in August 2015, our Bank issued tier-two capital bonds in a principal amount of RMB2.0 billion with a term of 10 years. The annual interest rate of the bonds is 5.80%. Our Bank has an option to redeem the bonds at the end of the fifth year of the issuance of the bonds.

Interbank certificates of deposit

Our Bank issued multiple tranches of zero-coupon interbank certificates of deposit with total nominal amount of RMB13.88 billion in 2016 with terms ranging from one month to 12 months and effective interest rates ranging from 2.70% to 5.30% per annum.

Our Bank issued multiple tranches of zero-coupon interbank certificates of deposit with total nominal amount of RMB52.23 billion in 2017 with terms ranging from one month to 12 months and effective interest rates ranging from 4.10% to 5.55% per annum.

Our Bank issued multiple tranches of zero-coupon interbank certificates of deposit with total nominal amount of RMB64.78 billion in 2018 with terms ranging from one month to 12 months and effective interest rates ranging from 3.50% to 5.30% per annum.

Preparation for Proposed A-share Listing

Our Bank initiated preparation for proposed listing of its Shares on a domestic stock exchange ("**A-share Listing Preparation**") in July 2012. Due to the uncertain and relatively prolonged listing timetable for A-share listing and a more reasonably foreseeable timeline of H-share listing process, and considering that the Hong Kong Stock Exchange would provide us with an international platform to gain access to foreign capital and overseas investors, the Bank switched to the Listing instead in September 2018. As of the Latest Practicable Date, the Bank did not submit any A-share listing application to the CSRC for review and did not receive any comments or issues raised by the CSRC (including its local offices).

To the best of its knowledge and belief, our Bank is not aware of (i) any matter which arose during it's A-share Listing Preparation that might potentially affect the suitability of the Group to be listed on the Hong Kong Stock Exchange and (ii) any matter in relation to the A-share Listing Preparation that ought to be drawn to the attention of the potential investors and the Hong Kong Stock Exchange.

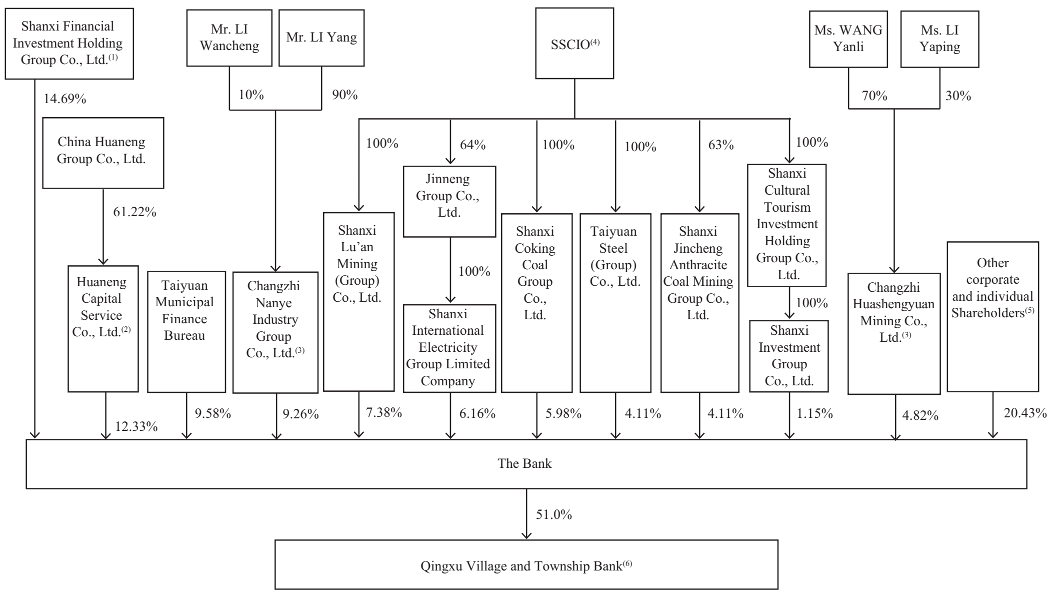
OUR SHAREHOLDING AND GROUP STRUCTURE

Shareholding Structure

As of the Latest Practicable Date, our Bank had 150 corporate Shareholders with approximately 98.38% interest in the registered capital of our Bank and 7,159 individual Shareholders with approximately 1.62% interest in the registered capital of our Bank. All of these Shareholders are holders of Domestic Shares. As of the Latest Practicable Date, the Shareholders directly holding 5% or more of the share capital of our Bank include Shanxi Financial Investment Holding Group Co., Ltd., Huaneng Capital Service Co., Ltd., Taiyuan Municipal Finance Bureau, Changzhi Nanye Industry Group Co., Ltd., Shanxi Lu'an Mining (Group) Co., Ltd., Shanxi International Electricity Group Limited Company and Shanxi Coking Coal Group Co., Ltd., which directly held approximately 14.69%, 12.33%, 9.58%, 9.26%, 7.38%, 6.16% and 5.98% of the share capital of our Bank, respectively.

As of the Latest Practicable Date, our Bank was unable to verify the identity and shareholding of 76 corporate Shareholders and 230 individual Shareholders, which held in aggregate approximately 0.04% and 0.02% of the share capital of our Bank, respectively. The Directors believe that the existence of any of such Shareholders whom our Bank is unable to contact has no material adverse impact on our Bank's shareholding structure, corporate governance, business and operations.

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



Notes:

(1) Shanxi Financial Investment Holding Group Co., Ltd., one of our state-owned Shareholders, was wholly owned by Shanxi Finance Bureau (山西省財政廳) and primarily engaged in the investment and management of financial industry, including banking, securities, insurance, fund, trust, futures and lease; assets management; investment and management of non-financial industry.

(2) Huaneng Capital Service Co., Ltd. is one of our state-owned Shareholders and was held as to 61.22% by China Huaneng Group Co., Ltd., which was wholly owned by SASAC. The business scope of Huaneng Capital Service Co., Ltd. was investment and investment management, assets management, assets trusteeship management, and investment and management consulting services.

(3) Changzhi Nanye Industry Group Co., Ltd., one of our non-state owned Shareholders, was held as to 90% by Mr. Li Yang (李楊) and as to 10% by Mr. Li Wancheng (李晚成). Changzhi Nanye Industry Group Co., Ltd. was primarily engaged in the wholesale and retail of steel, pig iron, ore (excluding those controlled by the State) and miscellaneous products.

Changzhi Huashengyuan Mining Industry Co., Ltd. (長治市華晟源礦業有限公司), one of our non-state owned Shareholders, was held as to 70% by Ms. Wang Yanli (王岩莉) and as to 30% by Ms. Li Yaping (李亞平). Changzhi Huashengyuan Mining Industry Co., Ltd. was primarily engaged in the sale of hardware and electric material, ore, construction materials and labour protection appliance, and coal washing. Changzhi Nanye Industry Group Co., Ltd. and Changzhi Huashengyuan Mining Industry Co., Ltd. are persons acting-in-concert according to their respective confirmation.

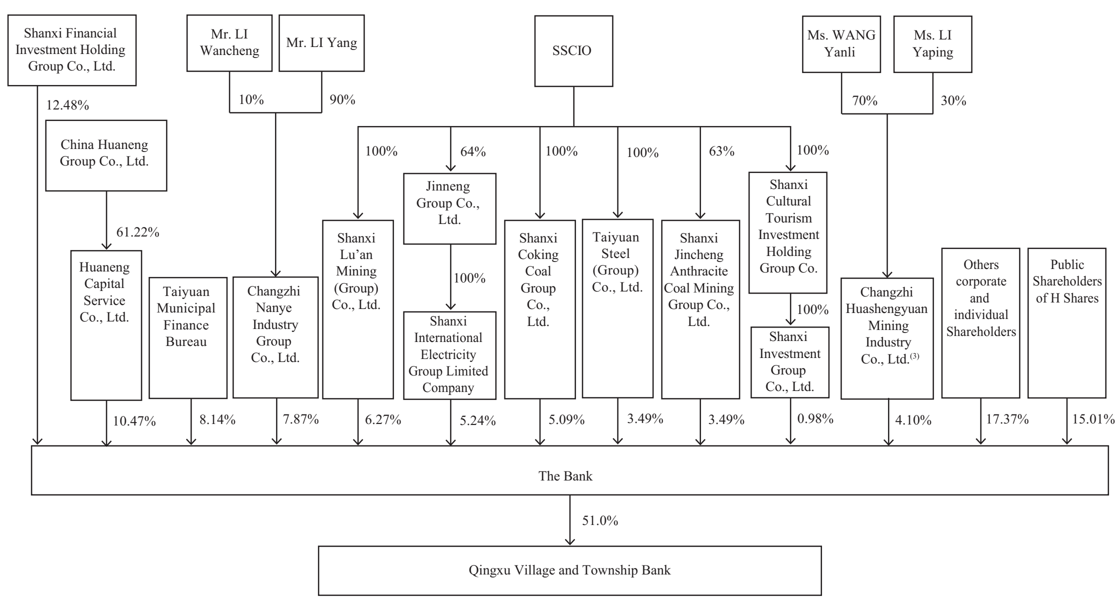
To the best knowledge of the Bank, Mr. Li Yang is the younger cousin of Ms. Wang Yanli and the nephew of Ms. Li Yaping. Therefore, each of Ms. Wang Yanli and Ms. Li Yaping is a deemed connected person (as defined under the Listing Rules) of the Bank. To the best knowledge of the Bank, Mr. Li Wancheng is an independent third party of the Bank.

(4) SSCIO, one of our state-owned Shareholders, was wholly owned by Shanxi SASAC. SSCIO indirectly held 28.89% equity interest in our Bank through eight subsidiaries, including Shanxi Lu'an Mining (Group) Co., Ltd., Taiyuan Steel (Group) Co., Ltd., Shanxi Jincheng Anthracite Coal Mining Group Co., Ltd., Shanxi Coking Coal Group Co., Ltd., Shanxi Cultural Tourism Investment Holding Group Co., Ltd., Shanxi Investment Group Co., Ltd., Jinneng Group Co., Ltd. and Shanxi International Electricity Group Limited Company. SSCIO was primarily engaged in the investment and operation of state-owned capital and state-owned stocks.

(5) As of the Latest Practicable Date, 139 other corporate Shareholders and 7,159 individual Shareholders held an aggregate of approximately 20.43% equity interest in our Bank. The shareholding percentage of each of these corporate Shareholders and each of these individual Shareholders does not exceed 5.0% and 0.02%, respectively.

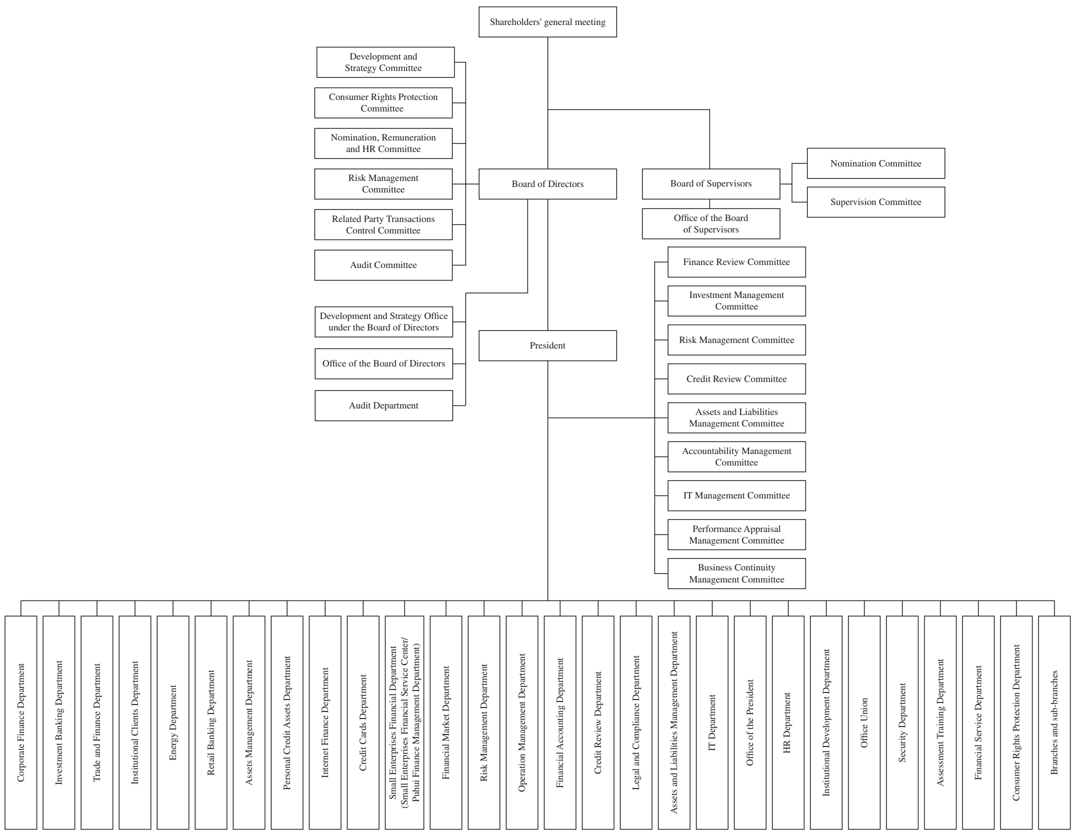
(6) As of the Latest Practicable Date, the remaining 49.0% equity interest of Qingxu Village and Township Bank was held by 13 individuals, each with an equity interest of 5% or less. All of these individuals were independent third parties.

The following chart sets out the shareholding and group structure of our Bank immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised):



OUR ORGANIZATIONAL STRUCTURE

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. Its principal responsibilities include determining the operation strategies and significant investment plans of our Bank, electing and replacing Directors and non-employee representative Supervisors and determining their remuneration, reviewing and approving the annual financial budget plans, financial accounting plans, profit distribution plans and loss recovery plans, determining the increase or decrease in the registered capital, amending the Articles of Association.

Board of Directors

The Board of Directors is accountable to the Shareholders' general meeting. Its principal responsibilities include convening the Shareholders' general meeting and implementing the resolutions of the Shareholders' general meeting, determining our Bank's development strategies, operation programs and investment plans, formulating the annual financial budget plans, financial accounting plans, risk capital allocation plans, profit distribution plans and loss recovery plans, formulating the proposed amendments to the Articles of Association, formulating the basic management system of the Bank and reviewing and approving the annual reports of the Bank.

The Board of Directors has established six special committees, including the Development and Strategy Committee, Audit Committee, Risk Management Committee, Related Parties Transactions Control Committee, Nomination, Remuneration and HR Committee, and Consumer Rights Protection Committee.

Board of Supervisors

The Board of Supervisors is accountable to the Shareholders' general meeting. The Board of Supervisors is responsible for supervising performance of the Board of Directors and senior management, and the Bank's financial operations, internal control and risk management. The Board of Supervisors conducts special surveys on specific areas and attends important meetings in order to understand the operation and management of the Bank and provides supervisory advice. The Board of Supervisors has established a nomination committee and a supervision committee, which shall report to the Board of Supervisors.

Senior Management

The senior management is responsible for the daily operation of our Bank. The president is accountable to the Board of Directors and may organize and conduct the business management of our Bank within the authorization of the Board of Directors and in accordance with laws, administrative regulations and other rules and the Articles of Association. Our Bank has appointed three vice presidents and other senior management to work with the president of our Bank and perform their respective management responsibilities.

The Party Committee

Our Bank has established a basic committee for the Communist Party of China (the "**CPC**"), which shall play a core leadership role and a core political role. The committee primarily assumes the following responsibilities:

- supervising the implementation of the policies of the CPC and the State in our Bank and implementing the important decisions of higher CPC organizations;

- discussing "three importance and one greatness" matters, including but not limited to, cadre management, capital allocation, major investments, performance appraisal, audit, human resources and remuneration management;

- supporting the Board of Directors, the Board of Supervisors and senior management to perform their respective duties mainly through (a) discussing and conducting studies on the training, appointment, referral, selection, movement, review, reward and penalty of mid-level and senior management and the supporting staff of the Board of Directors, the Board of Supervisors and senior management; (b) conducting studies and providing recommendations on operational and management matters to be decided by the Board of Directors, the Board of Supervisors and senior management of the Bank; and (c) discussing and conducting studies on work reports of important meetings of the Bank;

- strengthening the construction of leadership teams at all levels of our Bank and the construction of talent teams, establishing and improving the mechanism for selecting personnel to meet the requirements of modern enterprise systems and market competition conditions and conducting studies on the cadres and talent policies and management rules and their appointment and dismissal;

- 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;

- conducting studies on the development direction, business policies, mid - and long-term development plans including annual financial budget, annual performance review of the Bank's subsidiary and associates, external investments, institutions establishment, investments in fixed-assets, and projects which may have material impact on the Bank's asset size, capital structure, profitability and level of information technology, and other major matters of our Bank; and

- conducting studies and determining other matters that shall be considered and decided by the committee.

OVERVIEW

We are the only provincial city commercial bank in Shanxi Province. In 2018, we were ranked 440th among the "Top 1000 World Banks" in terms of tier-one capital as of December 31, 2017 by *The Banker*, moving up 136 places compared with our ranking in 2017. Our total assets increased from RMB173,385.9 million as of December 31, 2016 to RMB206,869.8 million as of December 31, 2017, and further to RMB227,247.8 million as of December 31, 2018. We ranked first among all city commercial banks in Shanxi Province in terms of total assets, total deposits from customers and total loans to customers as of December 31, 2017.

We have established an extensive business network covering Shanxi Province that fully penetrated into regions with strong economic growth. As of December 31, 2018, we had a business network comprising 160 outlets that covered all 11 prefecture-level cities in Shanxi Province. Capitalizing on our deep knowledge on the local economy and leveraging policies promulgated by PRC Government in recent years promoting industry upgrade and economic transformation in Shanxi Province, we strategically expanded into industries that enjoy strong business prospect. In particular, we invested in capturing opportunities arising from industries and businesses encouraged by favorable policies, including the consolidation and upgrade of coal-related industries, the integration of coal and power industries as well as the new material industries, and the development of advanced manufacturing and tourism industries that focus on products and services with unique features and advantages.

Our net profit increased from RMB1,031.9 million for the year ended December 31, 2016 to RMB1,230.5 million for the year ended December 31, 2017, representing an annual growth rate of 19.2%. Our net profit amounted to RMB1,313.6 million for the year ended December 31, 2018. As of December 31, 2018, our deposits from customers and net loans and advances to customers amounted to RMB144,896.8 million and RMB98,118.1 million, respectively.

During the Track Record Period, we achieved rapid and robust growth. Some of our prominent honors and awards in recent years include:

- 2018 Most Promising Bank Card Business Award (銀行卡業務最具潛力獎) granted by China UnionPay (中國銀聯)

- 2018 Progressive Award for Distributors of Debt Financing Plans (債券融資計劃承銷業務銳意進取獎) granted by Beijing Financial Assets Exchange (北京金融資產交易所)

- 2018 Direct Banking Innovative Application Award (直銷銀行創新應用獎) received at the 14th Annual Conference of China E-Bank (第十四屆中國電子銀行年度盛典), hosted by the China Financial Certification Authority (or CFCA, 中國金融認證中心)

- 2018 Financial Business Channel Innovation Outstanding Contribution Award (金融行業渠道創新突出貢獻獎) granted at the 2018 China Fintech Innovation & Investment Annual Summit (中國金融科技年會) and the ninth Fintech and Excellent Service Awards Ceremony (第九屆金融科技及服務優秀獎頒獎典禮), hosted by the Financial Computerizing Magazine (金融電子化雜誌)

- 2017 and 2018 Top Ten City Commercial Banks (十佳城商銀行) received at the 21st and 22nd China Local Finance Annual Forum (中國地方金融第21次、第22次論壇年會), respectively, hosted by the China Academy of Regional Finance (中國地方金融研究院)

- 2017 Best Wealth Management Bank of the Year (年度最佳財富管理銀行) awarded by the China Financial Development Forum and the Eighth Golden Tripod Awards (中國金融發展論壇暨第八屆金鼎獎) held by National Business Daily Network (每經新聞網)

- 2017 Golden Pine Award for Best Aggregate Payment Product (金松獎最佳聚合支付產品獎) granted by Mobile Payment Network' third Golden Pine Awards series (移動支付網第三屆"金松獎")

- 2017 Outstanding Member in China's Bond Market – Progressive Institution for Treasury Savings Bonds (Digital) (中國債券市場優秀成員–儲蓄國債(電子式)進步機構獎) and Outstanding Member in China's Bond Market – Outstanding Institution for Treasury Savings Bonds (Digital) (中國債券市場優秀成員–儲蓄國債(電子式) 優秀機構獎) awarded by China Central Depository & Clearing Co., Ltd. (中央國債登記結算有限責任公司)

- 2017 Most Promising Mobile Bank (最佳成長潛力手機銀行) recognized by CBN China Financial Value Ranking (第一財經金融價值榜)

- 2016 China Financial Innovative Award – Best Ten Innovative Wealth Management Awards (中國金融創新獎–十佳財富管理創新獎) issued at the 2016 China Financial Innovative Forum (中國金融創新論壇) hosted by *The Banker* (銀行家)

- 2016 Advanced Service Provider for Micro and Small Enterprises (小微企業金融服務先進單位) awarded by CBRC Shanxi Office (中國銀監會山西監管局)

OUR COMPETITIVE STRENGTHS

We are the only provincial city commercial bank in Shanxi Province and are well-positioned to benefit from the strong growth of the local economy driven by Shanxi Province's economic transformation and favorable national and regional policies.

Capitalizing on economy transformation driven by favorable national policies, Shanxi Province has experienced rapid growth in recent years, particularly since late 2016. According to the NBS, the GDP of Shanxi Province reached RMB1,552.8 billion in 2017, representing a year-on-year real GDP growth of 7.1% from that in 2016, which is higher than the national average of 6.8%. In particular, Shanxi Province has optimized its industrial structure through leveraging its geographic advantage and efforts to transform the resource-based economy in line with relevant national policies. In 2018, the GDP of Shanxi Province further increased to RMB1,681.8 billion with a year-on-year real GDP growth rate of 6.7%, higher than the national average of 6.6% and showing a continued trend of recovery since the second half of 2016. In addition, in respect of the period-to-period increase in added value of above-scale industries for the year ended December 31, 2018, the growth rate of the coal industry and that of the non-coal industries amounted to 0.3% and 8.2%, respectively. For the nine months ended September 30, 2018, tax income from non-coal industries amounted to RMB73.6 billion, accounting for 54.0% of the total tax income of Shanxi Province for the same period. In particular, in accordance with favorable national policies, Shanxi Province invested in promoting environmentally friendly industries such as tourism. For the year ended December 31, 2018, revenue from the tourism industry in Shanxi Province amounted to RMB672.9 billion, representing a 25.5% increase from the previous year.

In recent years, PRC Government has promulgated various favorable policies promoting sustainable development of the Shanxi economy. According to its *13th Five-Year Plan for Development of Central China* (促進中部地區崛起"十三五"規劃) published in 2016 and related policies, the State Council recognizes the strategic importance of the economic development of Central China and requests the local governments to take proactive measures to ensure that the local economy develop in line with national initiatives designed to improve the comprehensive strength and competitiveness of Central China. These initiatives aim at the upgrade and innovation of industries, the integration of urban and rural areas, the development of modern infrastructure and the promotion of the living standard of residents. In addition, in its *Opinions on Supporting Shanxi Province's Further Reform on Transforming and Developing Its Resource-based Economy* (關於支持山西省進一步深化改革促進資源型經濟轉型發展的意見), the State Council designated Shanxi Province as the demonstration zone for the transformation of the resource-based economy in China. In particular, this policy enumerated specific implementation measures where financial institutions are expected to develop products and services accordingly, including supporting the consolidation and upgrade of coal-related industries, the integration of coal and power industries as well as the new material industries, and the development of advanced manufacturing and tourism industries that focus on products and services with unique features and advantages. In 2018, the NDRC issued its *Opinions on Supporting the Cooperation Between Shanxi Province and Beijing-Tianjin-Hebei Region to Realize Joint Development* (關於支持山西省與京津冀地區加強協作實現聯動發展的意見),

according to which it is the national policy to integrate Shanxi Province and the Beijing-Tianjin-Hebei region to achieve joint development and mutually beneficial results where Shanxi Province is recognized as the key strategic area facilitating the integration between the Beijing-Tianjin-Hebei region and Central and Western China.

Being the only provincial bank incorporated in Shanxi Province, we have established a business network with comprehensive coverage and a strong market reputation through decades of efforts, and have won recognition from local governments at different levels in Shanxi Province. As of December 31, 2018, we had also entered into cooperation agreements with Shanxi Government in four cities and eight districts, through which we were given priority in participating in large-scale projects in the relevant regions, thereby enhancing our competitive position in seeking new business opportunities within the public sector. According to the *Framework Plan for Reform of Financial Industry in Shanxi Province* (山西省地方金融改革框架方案) issued by Shanxi Government, the successful reform of our Bank is listed as one of the key targets for the overall reform and development of Shanxi's financial industry. In addition, according to the *13th Five-Year Plan for Financial Industry in Shanxi Province* (山西省"十三五"金融發展規劃) issued in 2017, it is one of the province's key strategic development goals to continuously enhance our competitiveness and market influence. Through leveraging favorable policies and effectively capturing market opportunities driven by economic transformation in Shanxi Province, we have achieved rapid development in recent years. During the Track Record Period, our total assets increased from RMB173,385.9 million as of December 31, 2016 to RMB206,869.8 million as of December 31, 2017, and further to RMB227,247.8 million as of December 31, 2018. We ranked first among all city commercial banks in Shanxi Province in terms of total assets, total deposits from customers and total loans and advances to customers as of December 31, 2017. In 2018, our Bank was granted an AA+ long-term corporate credit rating by China Lianhe Credit Rating Co., Ltd., an improvement from our AA rating in 2017.

We have established a strongly competitive corporate banking business by deepening cooperation with corporate and institutional customers and actively seizing market opportunities brought up by favorable policies.

We position ourselves as a "financial steward" for local governments, as well as a "partner of the real economy", in Shanxi Province. During the Track Record Period, our corporate banking business achieved rapid growth through proactively participating in projects with key importance for local economic development. As of December 31, 2017, our total corporate loans amounted to RMB68,054.7 million, an increase of RMB21,125.9 million, or 45.0%, from that as of December 31, 2016. As of December 31, 2018, our total corporate loans and total corporate deposits amounted to RMB73,928.3 million and RMB72,014.4 million, respectively.

Capitalizing on our insight on the local economy in Shanxi Province and our efficient organizational structure allowing us to respond quickly to customers' needs, we managed to establish and retain long-term cooperation relationships with corporate banking customers with strong creditworthiness, including governments at different levels, as well as corporate and institutional customers in Shanxi Province.

To meet the diversified demands from different corporate customers in terms of liquidity and expected returns from investments, we launched various series of corporate deposit products including "Wen De Li (穩得利)" and "Jia Duo Li (加多利)". By successfully meeting our customers' varying needs for financial products, we have enhanced our competitiveness and improved the market awareness of our brand. In addition, we actively promoted our trade finance services, through which we strengthened our relationship with large corporate customers with strong credit worthiness. By actively capturing opportunities brought by local economic policies, particularly policies promoting urbanization and living standards among local residents in Shanxi Province, we have been able to participate in key civil projects including public transportation, central heating and reconstruction of urban villages. In 2018, leveraging our capacity in offering quality treasury cash management services, we successfully extended our qualification for providing time deposit services for the central treasury's cash management business as a commercial bank. In addition, by thoroughly analyzing the cash management requirements associated with the daily operations of our customers in different industries, we developed compatible product systems in recent years and tailor-made our services to better fit their demands. As of the Latest Practicable Date, our featured cash management services for specific customer groups included "Zhao Biao Tong (招標通)" designed for bidding related business; "An Kuan Tong (案款通)" designed for courts to improve their efficiency of litigation-related fund management; and "Pre-sale Transactions Housing Management (預售房交易資金監管)" and "Second-hand Housing Fund Management (二手房資金監管)" designed for government agencies in charge of managing housing registration and transactions. In January 2019, we launched social security fund management services for the tax authorities in Shanxi Province, where individual and institutional customers may collect and make payment for their social security funds across different banks through our service. We believe that, by offering these services, we have strengthened our long-term cooperation with different government agencies, which significantly expanded our access to potential customers and further enhanced our competitive edges over the industry peers. In line with policies promulgated by PRC Government in recent years promoting industry upgrade and economy transformation in Shanxi Province, we actively entered industries with strong development potential.

In recent years, while strengthening our ties with large enterprises that enjoy good creditworthiness in industries that play a fundamental role in the Shanxi economy, such as coal and energy, we took proactive measures to capture opportunities arising from industries and businesses supported by favorable policies. As of the Latest Practicable Date, we had established stable business relationships with 41 key corporate customers in Shanxi Province, both in traditional industries like energy and transportation and in emerging areas such as tourism and new material manufacturing.

During the Track Record Period, we invested in developing innovative financial products and services, which allowed us to provide comprehensive financial solutions to customers and effectively mitigate challenges to traditional banking business in the course of interest rate liberalization. For our debt-securities distribution business, we obtained the preliminary and Class-B qualification for underwriting debt financing instruments issued by non-financial enterprises in 2016 and 2019, respectively, the latter of which allows us to act as a lead underwriter in the regional market. For the years ended December 31, 2017 and 2018, the aggregate principal amount of debt securities that we distributed was RMB30.0 billion and RMB56.9 billion, respectively. In addition, upon approval from CBIRC Shanxi Office on November 28, 2018, we are now qualified to conduct trading of basic derivatives.

In addition, following policies of PRC Government encouraging financial services supporting the real economy, particularly micro and small enterprises, we launched a series of loan products based on the specific needs of micro and small enterprises that are well-recognized by the market, including "Kuai Ya Dai (快押貸)" and "Lian Lian Rong (聯鏈融)". These products feature streamlined credit review and fund disbursement, convenient repayment, and efficient post-disbursement risk management.

We continually innovate retail banking products and services based on thorough analysis of customers' needs and have established our distinctive competitiveness.

Capitalizing on our deep knowledge of the regional market and the preferences of local customers, we have launched various well-received retail banking products and services and established strong competitiveness in terms of distribution channels, customer base, product mix, and innovative capacities. During the Track Record Period, our retail banking business witnessed rapid growth. As of December 31, 2016, 2017 and 2018, our personal loans amounted to RMB6,722.1 million, RMB12,861.8 million and RMB15,037.7 million, respectively, and our total personal deposits amounted to RMB35,981.0 million, RMB48,725.9 million and RMB57,950.0 million, respectively.

We have established an extensive business network in the regions within Shanxi Province showing strong economic growth. As of December 31, 2018, we had one head office, ten branches, 150 sub-branches (including four sub-branches directly administered by the head office, 128 city-level sub-branches and 18 county-level sub-branches) and one 51.0% owned subsidiary, Qingxu Village and Township Bank. In total, we had 160 outlets, which covered all 11 prefecture-level cities in Shanxi Province. We keep optimizing the layout of our business network to improve our capacity in capturing opportunities arising from the economic development in different regions. For instance, in 2017, Shanxi Province established an integrated reform demonstration zone for economy reform in Taiyuan. In response to this policy, we established a branch exclusively serving this demonstration zone, allowing us to effectively improve the quality and efficiency of financial services to the enterprises within this zone. In addition, to make our products and services conveniently accessible online and through mobile devices, we have successfully developed electronic banking channels that supplement our physical business network, comprising online banking, telephone banking and mobile banking where customers may access our services through our mobile phone app or official WeChat account. In February 2016, our Bank, as one of the promoters, established

Jinshang Consumer Finance (晉商消費金融), where the Bank held 40.0% of its equity interests as of December 31, 2018, which helps us to effectively capture market needs for our financial products and services arising from the rapid development of consumer finance in recent years.

Leveraging our quality services, we managed to quickly expand our retail banking customer base, which increased from 1,842.1 thousand as of December 31, 2016 to 2,078.1 thousand as of December 31, 2017 and further to 2,343.6 thousand as of December 31, 2018. We classify our retail banking customers into five categories based on their assets under our management, or AUM, namely public customers (大眾客戶), auspicious customers (潛力客戶), medium customers (中端客戶), wealth customers (財富客戶) and private banking customers (私人銀行客戶), where we provide tailor-made services based on their specific needs. We also invested in promoting the transform of our services from sales of products to asset management. We launched our flagship premium retail banking services under the brand name of "Jin Sheng Cai Fu (晉升財富)" in 2015, where customers could enjoy a broad range of exclusive financial services, including tailor-made wealth management plans, in-person consultation with our staff with strong expertise and rich experience in private banking services, and exclusive access to select financial products and services. As of December 31, 2018, we had 223,545 retail banking customers of our "Jin Sheng Cai Fu (晉升財富)" services, among whom 52.7%, 28.7%, 18.3% and 0.3% were our auspicious customers, medium customers, wealth customers and private banking customers, respectively. Capitalizing on our strong research capability and experience in offering financial services to high-end retail banking customers, we jointly launched the "China Wealth Management Income Index (中國財富管理收益指數)" in 2017 with a financial data service enterprise in China that has strong big-data analytical capability. We update this index on a monthly basis to give the public a comprehensive view of the status of a broad range of wealth management products commonly seen in China's retail banking industry. Such efforts further enhance our brand awareness and, particularly, our "Jin Sheng Cai Fu" branded retail banking services. In May 2016, we received *China Financial Innovative Award – Best Ten Innovative Wealth Management Awards* (中國金融創新獎–十佳財富管理創新獎) issued at the 2016 China Financial Innovative Forum (中國金融創新論壇) hosted by *The Banker* (銀行家) for our achievements in relation to "Jin Sheng Cai Fu (晉升財富)".

During the Track Record Period, we developed a broad range of well-received retail banking loans and deposits products catered to the financial needs of different customer groups. In addition, we thoroughly studied the risk tolerance levels and expected investment returns of different target customer groups, based on which we designed and launched various personal wealth management products, including "Duo Ying (多盈)" and "Feng Ying (豐盈)" series. For details on our personal wealth management products, please see "– Financial Markets – Wealth Management". During the Track Record Period, our personal wealth management business witnessed promising growth. For the years ended December 31, 2016 and 2017, wealth management products we issued to retail banking customers amounted to RMB57,687.4 million and RMB64,131.4 million, respectively. For the year ended December 31, 2018, wealth management products we issued to retail banking customers amounted to RMB55,488.2 million. As of December 31, 2018, we had 222,954 personal wealth management customers. In 2016, we were awarded *2015 Best Risk Control for Wealth Management Businesses in the PRC Banking Industry* (2015 年度中國銀行業理財機構最佳風控獎) by the

Wealth Management Specialized Committee of the China Banking Association (中國銀行業協會理財業務專業委員會). In addition, during the Track Record Period, we successfully launched credit card services with distinctive value-added features designed for different target customer groups that encourage frequent use of cards in daily purchases from local merchants. Together with the Department of Human Resources and Social Security of Shanxi Province, we issued "Social Security IC Card (社會保障IC卡)", through which the card holders may access social security services on top of the ordinary functions of debit cards. These products and services manifested our technology competitiveness in product innovation, improved the customer loyalty of our services, and established solid ground for the sustainable development of our retail banking business.

We recognize the strategic value of internet technology for promoting our financial market business and invest in the continual utilization of advanced technology to drive innovation in our financial products and services.

We recognize that advanced Fintech, particularly technology of key importance to our business operations and internal management, is vital to enhancing our competitiveness. Leveraging our deep understanding of our customers' preferences on financial products and services in the internet era, we adopt advanced information and financial technology to develop and launch products and services with innovative features catered to various customer groups, resulting in the continuous improvement of our competitive strengths.

As of the Latest Practicable Date, we had established advanced electronic banking channels offering a broad variety of products and services, which comprise online banking, mobile banking and telephone banking operations. Our online banking platform, accessible via our website www.jshbank.com, offers a broad range of financial products and services to both corporate banking and retail banking customers. As of December 31, 2018, we had a total of approximately 531.1 thousand online banking customers, including approximately 13.4 thousand corporate banking customers and approximately 517.7 thousand retail banking customers. We also offer a broad range of services through our mobile phone app and our official WeChat account, including bank account setup, account inquiry and the purchase of wealth management products. As of December 31, 2018, we had approximately 739.8 thousand mobile banking users and our official WeChat account had 102,481 subscribed members. For the years ended December 31, 2017 and 2018, transactions processed through our self-service banking facilities and electronic channels accounted for approximately 69.6% and 79.2%, respectively, of our total amount of transactions for the same periods.

We commenced direct banking business in September 2015. We have established a specially designed online platform where customers across China can conveniently purchase investment and financing products, funds, and deposits services. Capitalizing on our long-term relationships with various third-party IT service providers, we have also made our direct banking services a convenient gateway for customers to access daily services, such as online shopping, registration for medical services, and flight information checking. These services have helped us capture the potential financial needs of customers and improve the attraction and online foot-flow of our direct banking business. As of December 31, 2018, our direct banking business had approximately 86.5 thousand customers.

To capture business opportunities from the growing customer appetite for mobile payment, we launched our proprietary mobile payment platform, "Jinshang Quick Pay (晉商快付)" in late 2016. This platform offers comprehensive mobile payment services, including channeling payment, bill reconciliation and correction, and introduction of financial products and services. As of the Latest Practicable Date, "Jinshang Quick Pay" supported the direct scanning of merchants' QR codes through WeChat and Alipay. We invest in continually expanding the utilization scenarios and channels for this platform to enhance its competitiveness. We charge registered merchants, rather than retail banking customers, service fees accordingly. In 2017, in recognizing the strong technological capacity and innovative specifications of our "Jinshang Quick Pay", we were granted *Golden Pine Award for Best Aggregate Payment Product* (金松獎最佳聚合支付產品獎) in *Mobile Payment Network's third Golden Pine Awards series* (移動支付網第三屆"金松獎"). As of December 31, 2018, "Jinshang Quick Pay" had 18,057 registered merchants. For the year ended December 31, 2018, the total settlement amount of "Jinshang Quick Pay" was RMB571.1 million and the total number of transactions amounted to 1,732.8 thousand.

We have established a sound risk management mechanism and have taken prudent risk management measures to ensure asset quality.

We have established a vertically integrated risk management system with comprehensive coverage. We guide our daily risk management work in line with our risk management principles of "Comprehensiveness, Independence, Compatibility and Criticality (全面性、獨立性、匹配性、重要性)" and divide risk management responsibilities among different departments with clearly defined reporting lines and a strict authorization mechanism, allowing us to effectively monitor, prevent and mitigate various risks. As of December 31, 2016, 2017 and 2018, our NPL ratio was 1.87%, 1.64% and 1.87%, respectively, and our allowance coverage ratio was 163.52%, 183.96% and 212.68%, respectively.

Led by our Board of Directors, Board of Supervisors and senior management, and with support from different departments and branches, we have established a risk management model featuring a checks and balances mechanism covering the front, middle and back offices. Leveraging this system, we managed to efficiently deal with challenges raised by economic turbulences and evolving regulatory requirements and have achieved sustainable business development while ensuring efficient risk management. For credit risk management, we have developed comprehensive policies and implementation rules that cover the entire credit extension process, from application and pre-loan investigation to the disbursement of funds and post-loan monitoring. We carefully study the macroeconomic environment, regulatory development, market uncertainties and our asset portfolio and cautiously fine-tune our overall risk appetite from time to time in order to strike a balance between risks and return. In addition, we assign specific teams to conduct routine and *ad hoc* inspection on key indicators associated with market and operational risks, the results of which are timely assessed by our management team in determining our strategy for asset portfolio adjustment and formulating our risk management measures accordingly. For more details on our risk management system, please see the section headed "Risk Management".

We actively introduce advanced technologies to improve the efficiency of our risk management in light of challenges brought up by clients increasingly inclined to access financial products and services through internet and mobile devices. In addition, we invest in recruiting and retaining quality employees with relevant expertise to ensure the ongoing effectiveness of our daily risk management work. We also provide routine training to employees to enhance bank-wide awareness on compliance and risk management.

Our market leading position can be strongly attributed to our corporate culture that represents the cultural heritage of "Jin Shang (晉商)", our management team with rich industry experience, a sound and diversified shareholders' structure and a well-established talent cultivation system.

Shanxi Province is located in a region that used to be called "Jin (晉)" in ancient China, which is widely recognized as one of the key areas where commercial and financial services in China originated. Our brand name, "Jin Shang (晉商)" stands for "merchants from Jin area" in Chinese and conveys the concept of offering innovative and quality banking services throughout a long history. We cherish the rich cultural heritage and historical value attached to our brand name and have been investing in forging new value into it. In managing our business operations, we uphold our corporate culture of "Honesty, Innovation and Entrepreneurship (誠信、創新、實幹)" and the spirit of "Jin Shang (晉商)" that values "integrity and honesty, being an industry pioneer, harmonic cooperation, pragmatic operations, and social responsibility (誠實守信、開拓進取、和衷共濟、務實經營、經世濟民)" as acclaimed by President XI Jinping during his visit of Shanxi Province in 2017.

Capitalizing on their in-depth industry knowledge and market-oriented management concept, our management team successfully implemented various strategic initiatives aimed at ensuring our sustainable development and leading market position. Our chairman of the Board of Directors, Mr. YAN Junsheng, has over 25 years of industry experience. Prior to joining our Bank, Mr. Yan held leading positions in other financial institutions in Shanxi Province, including Taiyuan Urban Credit Cooperative Union (太原市城市信用合作社聯合社) and Taiyuan branch, Shanghai Pudong Development Bank Co., Ltd. (上海浦東發展銀行股份有限公司). His visionary strategic view, in-depth knowledge of the Shanxi economy, and rich experience in business management and policy analysis have enabled us to achieve sustainable development in recent years. Our president, Mr. TANG Yiping, has over 26 years of industry experience and used to hold leading positions in branches of Agricultural Bank of China Limited (中國農業銀行股份有限公司) in Shenzhen and Moscow. For more details on the qualifications of our directors and senior management, please see "Directors, Supervisors and Senior Management".

Our shareholders come from different industries with various management structures, including large-scale state-owned enterprises directly administered by SASAC and large state-owned enterprises in Shanxi province with strong creditworthiness. We have benefited from the rich industry experience and advanced management concept of our shareholders in setting our development strategy, forging our core competitiveness and expanding our business operations. In particular, leveraging the collective insight of our shareholders regarding the reform and development trends of a broad range of industries in China, including the financial industry, we have managed to cultivate an advanced management concept and continuously propel our sustainable development, resulting in the substantial improvement of our ability to offer comprehensive financial products and services.

Our senior management team pay particular attention to the cultivation of talents and consider the identification and utilization of talents the basis of our sustainable development. We have established a workforce with necessary expertise and strong execution capacity. We have established a comprehensive incentive management system offering a clear career development path for our staff, encouraging employees with different expertise to fully realize their value. We invest in improvements in our continued training program for employees that comprise multi-level courses and on-the-job training covering various positions, where we aim to enhance our employees' professional capability and to promote corporate culture like integrity and team work spirit. In addition, we have established a management trainee program since 2017 where we hire newly graduated students to identify financial talents at an early stage. As of December 31, 2018, our total number of employees reached 4,137, of which 46.1% were employees aged 30 and below, and 82.0% were employees with a bachelor's degree or above. Leveraging the sound age distribution and academic backgrounds of our employees, we managed to cultivate a positive and innovative corporate culture and enhance our capability of quickly identifying market trends and efficiently capturing market opportunities. As of December 31, 2018, we had 299 employees with AFP certification, and 31 employees with CFP certificates. Since 2016, nine of our employees have been awarded the title of "China's Top 100 Financial Planners" and 12 employees have been recognized as "China's Excellent Financial Planners".

OUR DEVELOPMENT STRATEGIES

Our strategic goal is to harness our core competitiveness through supporting and serving Shanxi Province's economic development, and to become a public company with strong competitiveness in the local market that has a sound corporate structure, featured products and services, a rigorous risk management system and comprehensive market coverage.

To achieve this goal, we intend to implement the following specific business development strategies:

Continuously enhance our existing competitive edges by capturing opportunities brought up by the economic transformation of Shanxi Province and solidifying our advantages in the local market.

We will continue to strengthen our competitive advantages by actively capturing the national and local strategic development opportunities brought about by the economic development of Shanxi Province, enhancing our existing advantages and deepening our relationship with our customers. Leveraging our analysis on the trend of regional economic development, we endeavor to serve the development of the real economy and support the supply-chain structural reform. Taking advantage of our deep understanding of the regional economy, we plan to take the initiative to develop quality products and services, to enhance our presence in key areas and fully grasp the evolving market opportunities.

We intend to achieve a steady growth and to optimize the structure of our asset scale, income and customer base, and continue to enhance our brand awareness and reputation by improving the quality of our customer-differentiated services and promoting the innovation of products and services to boost our profitability, while strengthening risk management and maintaining stable operation. In particular, we plan to closely follow urban renovation and government financial policies and actively participate in the research and development of products and services. In addition, we will continue to develop the brand of "Jin Sheng Cai Fu (晉升財富)" and build our competitive advantages on serving urban residents through our featured services named "wealth management for households (財富管理進家庭)". We will also pay close attention to improving our service efficiency, and, on top of ensuring effective risk management, we will flexibly adjust our credit review and approval procedures for different businesses to provide an efficient and convenient customer experience.

Optimize our business and revenue structure by further improving our business network and promoting the transformation of our retail banking business with a focus on the expansion of wealth management and private banking business operations.

We plan to continue transforming our business, promoting inclusive finance, continuously expanding the customer base, and developing differentiated products and services that closely serve the day-to-day financial needs of retail customers. Based on the comprehensive coverage of our business network, we will make use of advanced technologies to provide customers with convenient online and mobile financial products and services. In particular, we intend to continuously enrich our online banking services and attract customers with a good tailor-made user experience through technological upgrade. In addition, in response to the increasing popularity for users to utilize mobile devices in accessing financial products and services, we plan to continuously localize, refine and enrich the financial products, services and functions of our mobile terminal, and to set up close links with the local community to improve customer loyalty. We will also utilize our direct banking channel to build a one-stop platform which offers diversified service and products to enhance our competitiveness.

Furthermore, considering the trends of economic transformation and development and the characteristics of regional industries, we will implement differentiated management measures and strengthen the simplification and intelligentization of institutional outlets, while maintaining sound cost control, enhancing efficiency and further improving our market competitiveness and brand effects. Meanwhile, capitalizing on cross-selling opportunities brought up by investment banking, trade finance, financial market, internet finance, and integrated banking services, we will keep investing in optimizing and upgrading our products and services, enhancing customer service quality and user experience through utilizing advanced technologies, and actively capturing opportunities and addressing future challenges.

For our retail banking services and products, we will continue to invest in enhancing the competitiveness of existing products, including through improving user experience of debit cards and credit cards and continuously expanding our customer base. In response to retail customers' demand for consumer credit and wealth management products, we will actively innovate and develop new series of products. In addition, we will strengthen our professional capacity in relation to wealth management businesses for private banking customers so as to further enhance our capability in providing quality financial services for high-end customers. We also plan to continue to focus on the evolving financial needs of customer groups at different developmental stages and provide tailor-made product services accordingly.

Continue to develop our featured financial services for micro and small enterprises by leveraging the advantages of our corporate banking businesses, and continue to enhance our cooperation with local enterprises and governments.

For our corporate banking business, we will continue to focus on serving the governmental and institutional customers in Shanxi Province as well as enterprises in high-quality and featured industries, and will strengthen customer loyalty and the mutual promotional effects of our various business segments by enhancing our ability of providing one-stop financial solutions. In addition, we will continue to improve our ability of catering to corporate banking customers' needs for differentiated financial products, and facilitate the transformation of our corporate banking business toward a "light-capital" model, by expanding our fee- and commission-based services which require less capital investment compared to traditional banking businesses, and an "integrated" development plan, by enhancing our product innovation and management capabilities so as to enrich the range of financial services we could offer to our customers in a responsive and all-encompassing manner. We strive to be a "warm bank (溫暖銀行)" by maintaining efficient procedures and customer centricity, developing tailor-made products and enhancing customers' user experience.

We plan to continue our in-depth development of financial products and services for micro and small enterprises, to constantly improve the degree of refinement and specialization of our services, and to provide featured and differentiated services and products for small and micro customers. In terms of business network construction, we plan to continuously expand our network coverage by centering on our existing small enterprises financial services center (小企業金融服務中心). We will also expand our study on customer demand and the opportunities brought by industrial structure upgrade and transformation, and continue to deepen our cooperation with Shanxi Government and its affiliated enterprises and institutions, as well as large and medium enterprises in Shanxi Province, by continuously improving service quality and efficiency, providing tailor-made financial solutions and enhancing customer loyalty.

Further enhance our risk management and internal control capability to improve asset quality.

We intend to keep improving our risk management framework and enhance our corporate management system in line with the principles of "comprehensive coverage (職責全面), vertical independence (垂直獨立) and checks and balances (分工制衡)", with a particular focus on ensuring the independence and expertise of the risk management team. We plan to keep engaging and training our risk management staff with professional knowledge. We also intend to optimize our risk reporting system, implementation measures and risk evaluation and management tools in line with our risk tolerance level, which is frequently reviewed and adjusted according to our overall risk management strategy. We will invest in nurturing a long-term risk management culture and a continued training program, so that our employees may keep growing their recognition of the value of risk management and proactively implement the relevant measures in their daily work.

Optimize our human resources system to attract and cultivate quality talents.

We intend to keep improving our human resources management system to optimize the overall structure of our employees and improve the efficiency of our staff motivation mechanism. We plan to continuously enhance our performance evaluation system and to maintain an open, transparent and efficient human resources assessment framework. We will take efforts to attract and retain the right talents by implementing diversified and differentiated compensation strategies and a performance-oriented evaluation goal. We will continue to provide a wide range of training to enhance the professionalism of employees and their recognition of corporate culture.

Continually improve technology innovation and utilization and invest in the development of internet finance channels.

We intend to adopt rigorous and cautious measures in continually growing our online financial business. We plan to concentrate on developing an asset-light operation model and to improve our operational efficiency by leveraging our existing platforms. In particular, we will keep expanding the coverage of our products and services and promote them through multiple channels. We will keep investing in the development, utilization and upgrade of advanced technology, with a focus on cloud computing, big-data platforms, and technologies that help to enhance the efficiency of our risk management work and business operations. We believe these measures will constitute a solid technological foundation for us to provide distinctive products and services for our corporate banking and retail banking customers for the years to come.

OUR BUSINESS LINES

Our principal lines of business comprise corporate banking, retail banking, and financial markets. The following table sets forth our operating income by segments for the periods indicated.

	For the year ended December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Corporate banking	2,708.8	68.6%	3,242.9	73.9%	3,457.1	72.7%
Retail banking	699.5	17.7%	644.0	14.7%	1,073.8	22.6%
Financial markets	541.5	13.7%	496.2	11.3%	218.6	4.6%
Others(1)	–	–	2.8	0.1%	3.3	0.1%
Total(2)	**3,949.8**	**100.0%**	**4,385.9**	**100.0%**	**4,752.8**	**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

We provide our corporate banking customers with a wide range of products and services, including corporate loans, bill discounting, corporate deposits, transactional banking services, investment banking services, and other fee- and commission-based products and services. For the years ended December 31, 2016 and 2017, operating income from our corporate banking business amounted to RMB2,708.8 million and RMB3,242.9 million, respectively, accounting for 68.6% and 73.9%, respectively, of our total operating income for the same periods. For the year ended December 31, 2018, operating income from our corporate banking business amounted to RMB3,457.1 million, accounting for 72.7% of our total operating income for the same period. As of December 31, 2018, we had 20,668 corporate banking customers in total.

Corporate Loans

The majority of our corporate loan customers are institutions and enterprises located or otherwise having their primary operations in Shanxi Province. Corporate loans have been the largest component of our loan portfolio during the Track Record Period. As of December 31, 2016 and 2017, our corporate loans amounted to RMB46,928.8 million and RMB68,054.7 million, respectively, accounting for 68.4% and 70.1%, respectively, of our total loans to customers as of the same dates. As of December 31, 2018, the balance of our corporate loans further increased to RMB73,928.3 million, accounting for 72.7% of our total loans to customers as of that date.

Distribution of Corporate Loans by Product Type

We provide our corporate banking customers with working capital loans and fixed asset loans. The following table sets forth our corporate loans by product type as of the dates indicated.

	As of December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Working capital loans	40,239.0	85.8%	51,957.7	76.3%	50,136.1	67.8%
Fixed asset loans	6,167.4	13.1%	15,483.3	22.8%	22,678.1	30.7%
Other loans(1)	522.4	1.1%	613.7	0.9%	1,114.1	1.5%
Total corporate loans and advances	**46,928.8**	**100.0%**	**68,054.7**	**100.0%**	**73,928.3**	**100.0%**

Notes:

(1) Consists primarily of syndicated loans.

For a detailed explanation on the fluctuations of each product's share in our total corporate loans, please see "Assets and Liabilities – Assets – Loans and Advances to Customers – Distribution of Loans by Business Line – Corporate Loans – Distribution of Corporate Loans by Product Type".

Distribution of Corporate Loans by Maturity

Our corporate loans comprise short-term loans and medium- and long-term loans. The following table sets forth our corporate loans by maturity as of the dates indicated.

	As of December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Short-term loans and advances[1]	25,235.5	53.8%	30,998.7	45.5%	25,114.8	34.0%
Medium- and long-term loans[2]	21,693.3	46.2%	37,056.0	54.5%	48,813.5	66.0%
Total corporate loans	**46,928.8**	**100.0%**	**68,054.7**	**100.0%**	**73,928.3**	**100.0%**

Notes:

(1) Short-term loans are loans with a maturity of one year or less and advances.

(2) Medium- and long-term loans are loans that mature in more than one year.

The increases in the medium- and long-term loans as a percentage of our corporate loans during the Track Record Period were primarily due to the increased loans to infrastructure projects, most of which were medium- and long-term loans. For more details, please see "Assets and Liabilities – Assets – Loans and Advances to Customers – Distribution of Loans by Business Line – Corporate Loans – Distribution of Corporate Loans by Contract Maturity".

Distribution of Corporate Loans by Customer Types

We provide different loan products and services to our loan customers of various types, industries and sizes. Our corporate loan customers primarily include state-owned and private enterprises that engage in a broad range of industries, including manufacturing, mining, real estate, wholesale and retail, and leasing and commercial services. For details of the distribution of our corporate loans by industry, please see "Assets and Liabilities – Assets – Loans and Advances to Customers – Distribution of Loans by Business Line – Corporate Loans – Distribution of Corporate Loans by Industry".

The following table sets forth our corporate loans by customer size as of the dates indicated.

	As of December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Micro and small enterprises[1]	14,920.2	31.8%	24,475.7	36.0%	21,447.6	29.0%
Medium to large enterprises[1]	31,735.2	67.6%	43,485.1	63.9%	52,478.4	71.0%
Others[2]	273.4	0.6%	93.9	0.1%	2.3	0.0%
Total corporate loans	**46,928.8**	**100.0%**	**68,054.7**	**100.0%**	**73,928.3**	**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".

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

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. The Small Enterprises Financing Department (小企業金融部) at our head office takes charge of the overall strategic planning and product design in this sector, which is implemented by small enterprises financing departments located at different branches.

We also provide credit support to individual business owners, 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 "– Retail Banking – Personal Loans".

Unlike large and medium enterprises, micro and small enterprises often have relatively urgent and frequent financing needs. As a result, we have streamlined the loan origination and evaluation process to offer income-tailored financing solutions to micro and small enterprises. Our client managers leverage their knowledge in the local market to deliver solutions to our customers in a timely manner. To better serve the needs of these customers, we have also set up specialized teams as well as a small enterprises financial services center (小企業金融服務中心).

As of December 31, 2016 and 2017, our loans to micro and small enterprises amounted to RMB14,920.2 million and RMB24,475.7 million, respectively, accounting for 31.8% and 36.0% of our total corporate loans, respectively, as of the same dates. As of December 31, 2018, our loans to micro and small enterprises amounted to RMB21,447.6 million, accounting for 29.0% of our total corporate loans as of the same date.

Our micro and small enterprises customers engage in a broad range of industries, primarily real estate, mining, manufacturing, wholesale and retail, and leasing and commercial services. As of December 31, 2018, loans to these industries represented 21.8%, 15.6%, 13.6%, 11.0% and 10.4%, respectively, of our total loans to micro and small enterprises. For a discussion on risks arising from our loans granted to micro and small enterprises, including a higher NPL ratio compared to loans granted to large and medium enterprises, please see "Risk Factors – Risks Relating to Our Business – We are exposed to risks arising from loans granted to micro and small enterprises".

During the Track Record Period, we have introduced the following featured loan products to address the financing needs of micro and small enterprises, which have been well received by the market:

- "Kuai Ya Dai (快押貸)". We launched this loan product in July 2015 to applicants who can offer quality real properties or land as collateral. In evaluating applications and determining the loan amount, we consider various factors, including the specific collateral, pledges or guarantees provided by a loan applicant and the applicant's ability to repay. The maximum loan amount of this product generally does not exceed RMB10.0 million, with a term of up to three years.

- "Lian Lian Rong (聯鏈融)". We launched this supply chain finance product in April 2018, where we extend credits to micro and small enterprises who are the upstream suppliers and downstream customers of our core corporate clients. We enter into credit or loan agreements with our core corporate clients and the micro and small enterprises after conducting comprehensive investigation on the relationship and trade background between them. To control relevant credit risks, we require that all Lian Lian Rong (聯鏈融) applications be reviewed and approved by the Credit Review Department at our head office before fund disbursement. For more details on our supply chain finance services, please also see subsection headed "– Corporate Banking – Transaction Banking Services – Supply Chain Finance Services".

Loans to Large and Medium Enterprises

Large and medium enterprises are valuable to our business operations. Capitalizing on our in-depth knowledge of the local market and economy, we endeavor to design and launch loan products to meet the specific needs of our corporate banking customers, particularly customers with strong creditworthiness that engage in industries with strategic importance. For more details on how we manage our list of key corporate customers, please see subsection headed "– Corporate Banking – Corporate Banking Customer Base". We have long-standing relationships with our large and medium corporate banking customers, including the local government and its affiliated entities, large provincial state-owned enterprises, and distinguished private enterprises.

As of December 31, 2016 and 2017, our loans to large and medium enterprises amounted to RMB31,735.2 million and RMB43,485.1 million, respectively, accounting for 67.6% and 63.9%, respectively, of our total corporate loans as of the same dates. As of December 31, 2018, our loans to large and medium enterprises further increased to RMB52,478.4 million, accounting for 71.0% of our total corporate loans as of the same date.

Bill Discounting

Bill discounting refers to financial services where customers apply to the bank for discounting of unexpired bank acceptance bills or commercial acceptance bills, and the bank pays the remaining amount to the customers after deducting the discounted interest from the par value. Our bill discounting business effectively supplements our loan products.

As of December 31, 2016, 2017 and 2018, our discounted bills amounted to RMB14,926.7 million, RMB16,273.2 million and RMB12,671.8 million, respectively, accounting for 21.8%, 16.7% and 12.5%, respectively, of our total loans to customers as of the same dates. 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 67.7%, 85.2% and 94.2% of our total discounted bills as of December 31, 2016, 2017 and 2018, respectively.

We also operate interbank bill discounting and bill rediscount business in our financial markets business segment. For details, please see subsection headed "– Financial Markets – Bill Discounting and Rediscounting".

Corporate Deposits

We offer time and demand deposits products to our corporate banking customers. Our corporate deposit customers include government agencies, public institutions, state-owned enterprises and private enterprises. As of December 31, 2016, 2017 and 2018, our total corporate deposits amounted to RMB70,545.2 million, RMB77,021.7 million and RMB72,014.4 million, respectively, accounting for 60.7%, 56.5% and 50.3%, respectively, of our total deposits from customers.

Our time deposit products have maturities ranging from three months to five years. We also offer negotiated deposit products that have customized interest rates and other terms. Through these products, we have successfully enhanced our capability in providing our clients with competitive returns while satisfying their day-to-day cash management needs.

The following table sets forth our corporate deposits by product type as of the dates indicated.

	As of December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except for percentages)					
Demand deposits	20,718.4	29.4%	41,610.7	54.0%	36,977.4	51.3%
Time deposits	49,826.8	70.6%	35,411.0	46.0%	35,037.0	48.7%
Total corporate deposits	**70,545.2**	**100.0%**	**77,021.7**	**100.0%**	**72,014.4**	**100.0%**

Our corporate time deposits decreased significantly from RMB49,826.8 million as of December 31, 2016 to RMB35,411.0 million as of December 31, 2017, and further decreased slightly to RMB35,037.0 million as of December 31, 2018. The continued decrease was primarily due to (i) gradual maturity of certain corporate time deposits with relatively high interest rates in 2017 and 2018 which we did not continue to accept so as to optimize our deposit structure and control the costs; and (ii) the intensified market competition to develop corporate banking customers.

We invest in developing innovative corporate deposit products and services to meet the various financial needs of different corporate banking customers. For customers with a large amount of deposit who require flexible cash management options, we offer "Wen De Li (穩得利)" series, where customers may enjoy an interest rate comparable to that of corresponding time deposit products, adjusted on a real-time basis, according to the balance in their demand deposits account. To attract customers with a large daily balance who conduct frequent transactions, we launched "Jia Duo Li (加多利)" series, which allows corporate customers to enjoy an interest rate comparable to that of corresponding time deposit products, based on their average daily balances and the period of time maintaining such balances.

In addition to corporate loans and corporate deposit services, we also offer fee- and commission-based products and services for corporate banking customers, such as guarantee services and entrusted loan services. For more details, please see subsection headed "– Corporate Banking – Other Fee- and Commission-Based Corporate Banking Products and Services".

Transaction Banking Services

In managing our transaction banking business, we mainly offer cash management services, supply chain finance services, trade finance services and settlement services. We consider these services our competitive advantage as they allow us to leverage our technology capacities and long-term relationships with strategic customers to capture business opportunities in Shanxi Province's dynamic economy as well as in other regions in the PRC.

Cash Management Services

We provide integrated cash management services to our corporate customers through which we assist them with managing their cash flows, including account management, collection and payment management, liquidity management, bill management, and investment 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.

Capitalizing on our strong capability in utilizing advanced technology and offering quality cash management services, we have successfully captured market demands from different government agencies and institutional customers in Shanxi Province brought up by the economic reform in recent years. 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 the Latest Practicable Date, our featured cash management services for specific customer groups included "Zhao Biao Tong (招標通)" designed for bidding related business; "An Kuan Tong (案款通)" designed for courts to improve their efficiency of litigation-related fund management; and "Pre-sale Transactions Housing Fund Management (預售房交易資金監管)" and "Second-hand Housing Fund Management (二手房資金監管)" designed for government agencies in charge of managing housing registration and transactions. In January 2019, we launched social security fund management services for the tax authorities in Shanxi Province, where individual and institutional customers may collect and make payment for their social security funds across different banks through our service. We believe that, by offering these services, we have strengthened our long-term cooperation with different government agencies, which significantly expanded our access to potential customers and further enhanced our competitive edges over the industry peers. As of December 31, 2018, we had 938 cash management customers, including large enterprises and public institutions.

Supply Chain Finance Services

We provide supply chain finance services to the upstream suppliers and downstream customers of select enterprise customers in line with our customer development strategy. In 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-make product specifications. We offer a broad range of products and services, including accounts receivables financing (such as domestic factoring, loans pledged by receivables), and prepayment financing.

Trade Finance Services

We provide financial products and services designed for export trading, import trading, domestic trading, and cross-border transactions to customers from a broad range of industries, including trade, manufacturing, mining, and steel-making.

Settlement Services

We offer corporate customers with domestic and international settlement services. As of December 31, 2018, we had established agency relationships with over 30 banks worldwide.

- *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 and telegraphic transfers.

  In particular, the bank acceptance bill refers to a bill issued by a drawer with the approval of a bank, according to which, the bank guarantees to pay a determined amount to the payee or the holder of the bill unconditionally on a specified date. All of our bank acceptance bills are in Renminbi, and their terms are generally not more than six months for paper bills or one year for electronic bills. In 2016, 2017 and 2018, the accumulated amount of promised payment specified in our bank acceptance bills was RMB42,376.9 million, RMB27,785.7 million and RMB34,731.2 million, respectively, and the accumulated defaulted amount arising from bank acceptances was RMB4.4 million, RMB9.9 million and RMB19.8 million which represented a default ratio of 0.01%, 0.04% and 0.06%, respectively, in 2016, 2017 and 2018.

  As of December 31, 2016, 2017 and 2018, the provision that we made on bank acceptances amounted to RMB7.5 million, RMB1.6 million and RMB143.6 million, respectively. Compared to the ending balance as of December 31, 2016 and 2017, the significant increase in this provision as of December 31, 2018 was mainly due to the addition of provision amounting to RMB130.0 million on non-defaulted bank acceptances, as a result of our adoption of the expected credit loss model under IFRS 9 for recognition of the provision for impairment losses in 2018. Should we still apply IAS 39 in 2018, the provision made on the bank acceptances would amount to RMB13.6 million as of December 31, 2018, which is comprised of the provision on defaulted bank acceptances only.

- *International settlement.* Our international settlement services primarily include inbound and outbound remittances, export collection, import and export letters of credit, and cross-border RMB settlement. As of December 31, 2018, we provided international settlement services to a total of 28 corporate customers.

Investment Banking Services

Besides traditional loans and deposits businesses, we provide corporate customers with investment banking services. During the Track Record Period, we steadily expanded the products portfolio of our investment banking business and devoted efforts in the recruiting and training of qualified employees with relevant expertise.

Asset Backed Securities (ABS)

In January 2015, we became the first financial institution based in Shanxi Province to obtain approval from the CBRC to conduct ABS business. Since then, we have entered into trust agreements with trust companies in China, according to which we entrust our credit assets to trustees who subsequently issue security products collateralized by such assets to qualified investors. The underlying assets of an ABS 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 may be used to facilitate more lending.

During the Track Record Period, we participated in the issuance of three ABS products with total issuance volume of RMB9,801.0 million, through which we transferred a portfolio of customer loans with gross amount of RMB2,593.0 million, RMB2,920.0 million and RMB4,288.0 million, respectively, in 2016, 2017 and 2018 to a trust established by the relevant independent trust company. For instance, in September 2018, we served as the originator and loan servicer in the RMB4,288.0 million issuance of one ABS program in the interbank bond market, strengthening our expertise in this area and increasing our industry recognition. During the Track Record Period, all the portfolios of customer loans transferred through our ABS business had been derecognized, as we had transferred substantially all the risks and rewards of ownership of such portfolios of customers loans. For more details on relevant accounting treatments, please see Note 2(9) and Note 2(26)(h) to the Accountants' Report in Appendix I.

We believe that by prudently expanding our ABS business, we can further improve our asset portfolio and liquidity status while effectively controlling relevant risks.

Our Investment Banking Department also engages in the distribution of debt securities. For details, please see subsection headed "– Financial Market – Debt Securities Distribution".

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 including corporate wealth management services, entrusted loan services, guarantee services, mobile payment services, and syndicated loans services.

Corporate Wealth Management Services

We provide differentiated wealth management products with flexible terms and yields based on customers' needs and risk tolerance levels, in line with relevant PRC laws and regulations. During the Track Record Period, our signature corporate wealth management products mainly consisted of (i) "Wen Ying Bao Ben (穩盈保本)" series, a principal-protected series with fixed return; and (ii) "Xi Ying (喜盈)" series which are non-principal protected products with floating yields. For more details on the corporate wealth management products we issued, please see the subsection headed "– Financial Markets – Wealth Management".

For the years ended December 31, 2016, 2017 and 2018, the total volume of wealth management products we sold to corporate customers amounted to RMB18,648.0 million, RMB8,316.0 million and RMB2,774.0 million, respectively. During the Track Record Period, the CBIRC promulgated various rules and regulations imposing restrictions on interbank wealth management businesses as well as prohibiting the issuance of new principal-protected wealth management products after a grace period. In response to these regulatory requirements, we took active measures to reduce the offering of relevant products. As a result, we experienced a continuous decrease in the sales volume of wealth management products to corporate customers during the Track Record Period. For details on relevant rules and regulations, please also see the section headed "Supervision and Regulations".

During the Track Record Period, the non-principal protected wealth management products offered by us were not consolidated in our financial statements. However, the principal-protected wealth management products issued by us were consolidated in our financial statements, and the funds received from these products and the investment made with such funds had been recognized as our financial liabilities (e.g. deposits from customers) and financial assets (e.g. financial investments), respectively. For more details on relevant accounting treatments, please see Note 2(26)(h) to the Accountants' Report in Appendix I.

As of December 31, 2018, the balance of our wealth management products sold to corporate customers amounted to RMB908.5 million.

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 relevant corporate customers who, being the principals, assume the default risk of the loans, while we receive agency fees based on the entrusted loan amounts.

Guarantee Services

We provide various guarantee services to our corporate customers, in the form of bid guarantees, contract performance guarantees, prepayment guarantees, and other non-financing and financing guarantees.

Mobile Payment Services

To capture business opportunities from the growing customer preference for mobile payment, we launched our proprietary mobile payment platform, "Jinshang Quick Pay (晉商快付)" in late 2016. This platform offers comprehensive mobile payment services, including channeling payment, bill reconciliation and correction, and introduction of financial products and services. As of the Latest Practicable Date, "Jinshang Quick Pay (晉商快付)" supports the direct scanning of merchants' QR codes through WeChat and Alipay.

We invest in continually expanding the utilization scenarios and channels for this platform to enhance its competitiveness. We charge registered merchants, rather than the retail banking customers, service fees. In 2017, recognized for the strong technological capacity and innovative specifications of our "Jinshang Quick Pay (晉商快付)", we were granted *Golden Pine Award for Best Aggregate Payment Product* (金松獎最佳聚合支付產品獎) in Mobile Payment Network's third Golden Pine Awards series (移動支付網第三屆"金松獎"). In line with the PBoC's guidelines and through proactively upgrading our IT system, we had successfully connected "Jinshang Quick Pay" with the qualified clearing agencies including China UnionPay and China NetsUnion as of the Latest Practicable Date, and will continue to monitor the latest laws and regulations governing this developing field.

As of December 31, 2018, "Jinshang Quick Pay" had 18,057 registered merchants. For the year ended December 31, 2018, the total settlement amount of "Jinshang Quick Pay" was RMB571.1 million and the total number of transactions amounted to 1,732.8 thousand.

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.

Our Corporate Finance Department (公司金融部) at our head office maintains a list of key corporate customers including governmental agencies and private enterprises with whom we intend to maintain long-term strategic relationships. We conduct annual re-examination on the business development and financial condition of these key customers, so that we can timely identify and capture potential business opportunities. To optimize our customer portfolio, we pay particular attention to capturing business opportunities raised by national and provincial industry development policies. As of the Latest Practicable Date, we had established stable business relationships with 41 key corporate customers in Shanxi Province, both in traditional industries like energy and transportation and in emerging areas such as tourism and new material manufacturing, to whom we provide comprehensive financial services ranging from loan extension to settlement and payroll services. As of December 31, 2018, we had also entered into cooperation agreements with Shanxi Government in four cities and eight districts, through which we were given priority in participating in large-scale projects in the relevant regions, thereby enhancing our competitive position in seeking new business opportunities within the public sector.

We invest in developing quality customers and seeking projects in sectors with strong growth potential and credit support, including quality projects initiated and sponsored by local governments, state-owned enterprises or listed companies, the medical sector, the tourism industry, Public-Private Partnership (PPP) projects, renovation projects for urban villages and shanty towns, and organic and M&A projects in industries with high growth. For example, to enhance the penetration of our corporate banking services into medical institutions, we have entered into strategic cooperation agreements with over 13 hospitals in Shanxi Province, which allows us to offer a broad range of financial services including cash management, trade finance and payroll services. In addition, such cooperation allows us to provide hospital registration services to our retail banking customers through our mobile app or online platform, further enhancing the loyalty of our retail banking customers. We believe that these measures help us stand out from industry peers and have substantially enhanced our customer loyalty.

To improve our services for micro and small enterprises, we also set up specialized teams as well as a small enterprises financial services center. In addition, we have designed and developed a credit management system covering procedures tailored for loan issuance to micro and small enterprises, such as customer application, credit rating model, risk review and approval, and post-disbursement management.

As a testimonial to our effective customer management, we have achieved continued growth in our corporate banking customer base during the Track Record Period. We had a total of 19,055 and 20,102 corporate banking customers as of December 31, 2016 and 2017, respectively, and the total number of our corporate banking customers further increased to 20,668 as of December 31, 2018.

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 products and services. For the years ended December 31, 2016 and 2017, operating income from our retail banking business amounted to RMB699.5 million and RMB644.0 million, respectively, accounting for 17.7% and 14.7%, respectively, of our total operating income for the same periods. For the year ended December 31, 2018, operating income from our retail banking business amounted to RMB1,073.8 million, accounting for 22.6% of our total operating income for the same period.

Personal Loans

We provide our customers with various personal loans, including residential mortgage loans, personal business loans, and personal consumption loans. As of December 31, 2016, 2017 and 2018, our personal loans amounted to RMB6,722.1 million, RMB12,861.8 million and RMB15,037.7 million, respectively, accounting for 9.8%, 13.2% and 14.8%, of our total loans to customers, respectively, as of the same dates.

The following table sets forth our personal loans by product type as of the dates indicated.

	As of December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Residential mortgage loans	1,051.3	15.6%	6,578.2	51.1%	9,403.6	62.5%
Personal consumption loans	4,739.6	70.5%	4,495.5	35.0%	2,921.4	19.4%
Personal business loans	931.2	13.9%	1,366.1	10.6%	1,770.5	11.8%
Credit card balances	–	–	422.0	3.3%	942.2	6.3%
Total personal loans	**6,722.1**	**100.0%**	**12,861.8**	**100.0%**	**15,037.7**	**100.0%**

Residential Mortgage Loans

We provide our retail banking customers with residential mortgage loans to facilitate their purchases of new and second-hand residential properties. Residential mortgage loans are secured by the underlying properties being purchased by borrowers and with a term of up to 30 years. Generally, our residential mortgage loan amount does not exceed 70% of the purchase price or appraisal value of the property if the applicant intends to buy the first residential property, and such limit will be reduced to 60% if the applicant already holds one residential property. As of December 31, 2016, 2017 and 2018, our residential mortgage loans amounted to RMB1,051.3 million, RMB6,578.2 million and RMB9,403.6 million, respectively, accounting for 15.6%, 51.1% and 62.5% of our total personal loans, respectively, as of the same dates.

For a detailed explanation on the significant growth of our residential mortgage loans business during the Track Record Period, please see "Assets and Liabilities – Assets – Loans and Advances to Customers – Distribution of Loans by Business Line – Personal Loans". 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 private or individual businesses, micro and small enterprises, and other retail banking customers to serve their business operation needs, including start-up capital, working capital replenishment and fixed assets purchase. Considering that the capital needs of these business owners are often relatively urgent, more frequent, and in smaller amounts, we offer tailor-made products to satisfy their requirements. As of December 31, 2016 and 2017, our personal business loans amounted to RMB931.2 million and RMB1,366.1 million, respectively, accounting for 13.9% and 10.6% of our total personal loans, respectively, as of the same dates. As of December 31, 2018, our personal business loans further increased to RMB1,770.5 million, accounting for 11.8% of our total personal loans as of the same date.

In March 2018, we launched a loan product named "Jian Ya Kuai Dai (簡押快貸)" to owners of micro and small enterprises who can offer real properties as collateral. The maximum loan amount of this product generally does not exceed RMB2.0 million, with a term of up to three years. In particular, we adopt a streamlined approval process for this product where our branches have the authority to make loan approval in line with relevant risk management rules and procedures. For the year ended December 31, 2018, we granted a total of 203 "Jian Ya Kuai Dai (簡押快貸)" loans with an aggregate amount of RMB227.4 million.

Personal Consumption Loans

We provide personal consumption loans to our retail banking customers for their personal and household consumption needs, such as home renovation, education, traveling, medical treatment, and purchases of durable consumer goods. As of December 31, 2016, 2017 and 2018, our personal consumption loans amounted to RMB4,739.6 million, RMB4,495.5 million and RMB2,921.4 million, respectively, representing 70.5%, 35.0% and 19.4% of our total personal loans, respectively, as of the same dates.

In 2013, we launched "Ka Yi Dai (卡易貸)", which allows our debit cardholders to conveniently apply for personal consumption loans up to RMB500,000 that revolve for a term no longer than three years. Successful applicants may retrieve proceeds at an ATM or directly utilize proceeds for card payment. During the Track Record Period, we granted over 2.1 million "Ka Yi Dai (卡易貸)" loans with an aggregate amount of RMB49,505.0 million.

Personal Deposits

We offer traditional personal deposit products, including basic demand and time deposits, as well as innovative deposit products, such as "Jin Xiang Cun (晉享存)", "Zuo Xiang Qi Ying (坐享其盈)", "Xian De Li (先得利)" and "Yi Ben Wan Li (一本萬利)". As of December 31, 2016, 2017 and 2018, our total personal deposits amounted to RMB35,981.0 million, RMB48,725.9 million and RMB57,950.0 million, respectively, accounting for 30.9%, 35.8% and 40.5% of our total deposits from customers, respectively.

The following table sets forth our personal deposits by product type as of the dates indicated.

	As of December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Demand deposits	7,779.0	21.6%	9,536.0	19.6%	10,878.3	18.8%
Time deposits	28,202.0	78.4%	39,189.9	80.4%	47,071.7	81.2%
Total personal deposits	**35,981.0**	**100.0%**	**48,725.9**	**100.0%**	**57,950.0**	**100.0%**

We designed and promoted different products which allow customers to enjoy the convenience of demand deposits while accessing the higher return that time deposit products can offer. During the Track Record Period, we experienced a continuous and rapid expansion of our personal deposit customer base. For example:

- In 2012, we launched "Zuo Xiang Qi Ying (坐享其盈)" services designed for customers with deposits over RMB50,000. In managing this service, we facilitate automatic fund transfers between a designated time deposit bank account and the associated demand deposit bank account to ensure that the amount in the demand deposit account does not exceed RMB2,000, while the remaining balance may enjoy a more favorable interest rate normally offered to time deposit customers. In September 2015, we started to offer "Jin Xiang Cun (晉享存)" services through our direct banking channel, where we allow customers to enjoy the most favorable interest rate as long as balances in their deposit accounts qualify for the corresponding time deposit products. For both products, customers may deposit or withdraw money from their deposit accounts at will, while we adjust qualified interest rates based on the length of time the deposits have remained in the account. As of December 31, 2018, "Zuo Xiang Qi Ying (坐享其盈)" and "Jin Xiang Cun (晉享存)" had deposits from customers of RMB3,649.1 million and RMB19.2 million, respectively.

- We launched "Xian De Li (先得利)", a time deposit product, in November 2015, where our customers may receive in advance interest expected to be generated by the relevant deposit amount, immediately on the day they purchase such products. As of December 31, 2018, "Xian De Li (先得利)" had deposits from customers of RMB2,843.0 million, compared to RMB1,176.6 million and RMB2,233.6 million as of December 31, 2016 and 2017, respectively.

- In November 2015, we launched "Yi Ben Wan Li (一本萬利)" products for customers whose deposit balance exceeds RMB10,000, where they may choose to withdraw money from their deposit accounts from time to time, together with interest determined at favorable deposit interest rates, while the remaining amount stays qualified for time deposit interest rates. While we may adjust interest rates for deposit products from time to time based on changes in the benchmark interest rate set by the PBoC, customers of this product are guaranteed a corresponding increase in the interest rates they enjoy, but need not suffer a corresponding reduction in the interest rates upon the benchmark rates' downward movement. As of December 31, 2018, "Yi Ben Wan Li (一本萬利)" had deposits from customers of RMB17,561.8 million, compared to RMB4,339.9 million and RMB11,428.5 million as of December 31, 2016 and 2017, respectively.

In addition, to better engage and retain medium- to high-end customers, we offer certificate of deposits (大額存單) products to customers with savings over RMB200,000, where we tailor-make terms and conditions to allow these customers to enjoy more favorable interest rates. As of December 31, 2018, total deposits from our certificate of deposits customers amounted to RMB4,099.3 million, a significant rise from RMB93.7 million and RMB492.5 million as of December 31, 2016 and 2017, respectively.

Card Services

Debit Cards

We issue debit cards under various brand names to capture customers looking for different financial products and services. For ordinary debit cards, our customers could access regular services such as deposits and withdrawals, consumption, transfers and remittances, and wealth management. In addition, we launched (i) gold debit cards (金卡) for customers whose initial deposits exceeded RMB50,000 or have maintained daily balance of assets under our management (AUM) over RMB50,000 through a season; (ii) platinum debit cards (白金借記卡) for customers whose initial deposits exceeded RMB200,000 or have maintained daily balance of assets under our management (AUM) over RMB200,000 through a season; and (iii) private banking debit cards (私人銀行卡) for customers whose initial deposits exceeded RMB6.0 million or have maintained daily balance of assets under our management (AUM) over RMB6.0 million through a season, where customers may enjoy additional value-added services offered by us and various merchants, such as VIP services in selected airports. In recent years, to attract young customers, we began to offer DIY cards or the "Little Lotus Card (小荷卡)" where customers may design the cover of their own cards.

To broaden our service coverage and raise our brand awareness, we have established cooperation with various governmental agencies and public institutions. For instance, together with the Department of Human Resources and Social Security of Shanxi Province, we issued "Social Security IC Card (社會保障IC卡)", a two-in-one card which, in addition to the ordinary functions of debit cards, offers the card holders social security services, including social security information enquires, medical and hospital expenses payment, and social insurance premiums payment.

In addition, we are a member of China UnionPay, which enables debit cards issued by us to be used in China UnionPay's network in China and many foreign countries and regions.

As of December 31, 2016, 2017 and 2018, we had approximately 1,322.8 thousand, 1,493.3 thousand and 1,661.8 thousand debit card accounts, respectively. In 2016 and 2017, total amount spent through our debit cards was RMB14,818.4 million and RMB19,623.9 million, respectively. For the year ended December 31, 2018, total spending amount through our debit cards amounted to RMB17,347.1 million.

Credit Cards

We started issuing credit cards in June 2017. In September 2017, we obtained qualifications to issue VISA cards, which substantially improved our capability in providing cross-border services to our cardholders. As of December 31, 2017, we had issued approximately 62.1 thousand credit cards and our credit card balances amounted to RMB422.0 million. As of December 31, 2018, our number of issued credit cards and credit card balance further increased to 155.3 thousand and RMB942.2 million, respectively.

We offer our credit cardholders spending, transfer and settlement, cash deposit/withdrawal and other banking services. In addition, our credit cardholders can enjoy differentiated value-added services, including discounts on dining, entertainment, tourism services provided by merchants who participate in our preferential programs. To offer different services to various target customer groups, we offer four types of credit cards, namely, ordinary card, gold card, platinum card and diamond card based on the credit ratings of the credit applicants. Holders of each type of credit cards can receive and enjoy specific services and benefits tailor-made for the respective type of card. In December 2018, we further diversified our product mix by launching our signature Yue Xiang Card (悦享卡), which offers attractive discounts for customers who are bookstore visitors, and Fang Hua Card (芳華卡), which provides our females customers with exclusive welcome offers and gifts upon successful application. Capitalizing on our technology capacity, we also provide innovative credit card services, including convenient installment repayment arrangements for qualified transactions and quick credit limit adjustment for qualified customers. In January 2019, China UnionPay granted us the 2018 Most Promising Bank Card Business Award (2018年度銀行卡業務最具潛力獎), in recognition of our credit card business's notable development.

Other Fee- and Commission-Based Retail Banking Products and Services

For our retail banking customers, we provide various fee- and commission-based retail banking products and services, primarily personal wealth management services, agency services, payroll and payment services, and settlement services. For the years ended December 31, 2016, 2017 and 2018, our net income from fee- and commission-based retail banking products and services (including card services) amounted to RMB189.8 million, RMB133.3 million and RMB144.9 million, respectively.

Personal Wealth Management Services

We provide our retail banking customers with personal wealth management products and services under different principal-protected and non-principal protected series, each designed to meet specific risk tolerance levels and investment return expectations of various target customer groups. For instance, our "Duo Ying (多盈)" series are designed for customers who have medium or low risk preference, including a sub-category named "Duo Ying Zhai Shi Tong (多盈債市通)", a series of non-principal protected products with floating yields we launched in 2016, which focuses on investment in debt securities. Meanwhile, our "Feng Ying(豐盈)" series are designed for customers who have medium risk preference. In 2017, to capture the investment needs of high-end retail banking customers, we launched "Feng Ying Gao Jing Zhi (豐盈高淨值)", a "Feng Ying" sub-category of non-principal protected products with floating yields, where the minimum investment amount is RMB500,000 with investment focused on financial products with comparatively high risks.

For more details of our personal wealth management products, please see the subsection headed "– Financial Markets – Wealth Management".

To improve the accessibility of relevant products, we deliver our personal wealth management products through a variety of channels, including our counters, mobile banking app, and personal online banking website. In addition, we are committed to reinforcing our service team to better meet our customers' differentiated needs and provide professional advisory services.

During the Track Record Period, our personal wealth management business witnessed promising development. For the years ended December 31, 2016 and 2017, wealth management products we issued to retail banking customers amounted to RMB57,687.4 million and RMB64,131.4 million, respectively. For the year ended December 31, 2018, wealth management products we issued to retail banking customers amounted to RMB55,488.2 million. As of December 31, 2018, we had 222,954 personal wealth management customers. For the year ended December 31, 2017, the expected yield of our retail wealth management products ranged from 3.5% to 5.8%. For the year ended December 31, 2018, the expected yield of our retail wealth management products ranged from 3.55% to 5.60%. We plan to further diversify our product portfolio by introducing new types of personal wealth management products to cater to potential 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". In 2016, we were awarded *2015 Best Risk Control for Wealth Management Businesses in the PRC Banking Industry* (2015 年度中國銀行業理財機構最佳風控獎) by the Wealth Management Specialized Committee of the China Banking Association (中國銀行業協會理財業務專業委員會).

Agency Services

Our agency services mainly include fund distribution, bancassurance, treasury bonds distribution, trust distribution, and agency trading of precious metals.

Fund Distribution. Our customers can subscribe to, purchase and redeem fund products over our counters, or through our personal online banking website or mobile banking app. As of December 31, 2018, we had a total of 173 qualified fund sales personnel in our head office, branches and sub-branches. We also established business relationships with 18 domestic fund management companies in the PRC and distributed 599 fund products as an agent. For the years ended December 31, 2017 and 2018, the total transaction volume of fund products we distributed reached RMB2,618.4 million and RMB4,224.8 million, respectively.

Bancassurance. We have distributed insurance products as an agent through our cooperation with leading insurance companies since December 2016. As of December 31, 2018, we had entered into cooperative agreements with 11 insurance companies and provided 150 types of insurance products as an agent, including health insurance, life insurance, property insurance, automobile insurance, accident insurance and investment insurance. For the years ended December 31, 2017 and 2018, we had distributed insurance products with a total transaction volume of RMB181.9 million and RMB320.5 million, respectively.

Treasury Bonds Distribution. We are the only city commercial bank based in Shanxi Province that is authorized to underwrite treasury saving bonds. Our customers may purchase and redeem treasury saving bonds at our counter, or use such treasury bonds as pledges for their loan applications. For the years ended December 31, 2016, 2017 and 2018, the volume of treasury saving bonds we distributed reached RMB762.3 million, RMB964.5 million, and RMB1,032.6 million, respectively.

Trust Distribution. We began our trust distribution business in July 2011 and have since established a strong relationship with the leading trust companies in the industry. As of December 31, 2018, we cooperated with 18 trust companies, distributed 74 trust products, and the accumulative volume of trust products we sold reached RMB3.4 billion. For the years ended December 31, 2016, 2017 and 2018, the volume of trust products we distributed amounted to RMB232.0 million, RMB613.0 million and RMB550.1 million, respectively.

Agency Trading of Precious Metals. We conduct agency sales of gold and silver coins, gold bullion and handicrafts made in gold and silver for specialized third-party entities.

Payroll and Payment Agency Services

We provide government agencies, public institutions (including public hospitals and schools) as well as corporations, particularly large group corporations, with agency services including payroll, management payment of allowance, government subsidy disbursement, or payments of social security, stock dividends, bonuses, travel or other administrative expenses and insurance claim. As of December 31, 2017 and 2018, we had entered into payroll and payment agency service agreements with 812 and 1,301 enterprises and institutions, respectively. For the years ended December 31, 2016, 2017 and 2018, the amount of payment through our services amounted to RMB10,193.0 million, RMB12,552.0 million and RMB13,115.1 million, respectively.

Meanwhile, employees receive their salaries through their personal bank accounts with us, which has become an important source of our mid- and high-end retail banking customers. As of December 31, 2016, 2017 and 2018, we had approximately 1.9 million, 2.0 million and 2.1 million individual payroll service customers, respectively. For the years ended December 31, 2016, 2017 and 2018, the average monthly amount of salaries paid through our payroll services was approximately RMB849.4 million, RMB1,046.0 million and RMB1,092.9 million, respectively.

Settlement Services

We offer settlement services to our retail banking customers, including RMB denominated money transfer, deposit and withdrawal, and remittance businesses.

Retail Banking Customer Base

During the Track Record Period, we managed to steadily expand our retail banking customer base. We had approximately 1,842.1 thousand and 2,078.1 thousand retail banking customers as of December 31, 2016 and 2017, respectively, and the total number of retail banking customers further increased to 2,343.6 thousand as of December 31, 2018.

We classify our retail banking customers into five categories based on their assets under our management, or AUM, namely: public customers (大眾客戶) (with AUM of less than RMB50,000), auspicious customers (潛力客戶) (with AUM between RMB50,000 and RMB200,000), medium customers (中端客戶) (with AUM between RMB200,000 and RMB500,000), wealth customers (財富客戶) (with AUM between RMB500,000 and RMB6.0 million) and private banking customers (私人銀行客戶) (with AUM of more than RMB6.0 million). As of December 31, 2017, we had 93,450 medium, wealth and private banking customers. As of December 31, 2018, the aggregate number of our medium, wealth and private banking customers further increased to 105,650.

We launched our flagship premium retail banking services under the brand name of "Jin Sheng Cai Fu (晉升財富)" in 2015, where customers could enjoy a broad range of exclusive financial services, including tailor-made wealth management plans, in-person consultation with our staff with strong expertise and rich experience in private banking services, and exclusive access to selected financial products and services. As of December 31, 2018, we had 223,545 retail banking customers of our "Jin Sheng Cai Fu" services, among whom 52.7%, 28.7%, 18.3% and 0.3% were our auspicious customers, medium customers, wealth customers and private banking customers, respectively. As a testimonial to the achievements of our "Jin Sheng Cai Fu (晉升財富)" branded service, in May 2016, we received *China Financial Innovative Award – Best Ten Innovative Wealth Management Awards* (中國金融創新獎-十佳財富管理創新獎) issued at the 2016 China Financial Innovative Forum (中國金融創新論壇) hosted by *The Banker* (銀行家).

Capitalizing on our strong research capability and experience in offering financial services to high-end retail banking customers, we jointly launched the "China Wealth Management Income Index (中國財富管理收益指數)" in 2017 with a financial data service provider in China that has strong big-data analytical capability. We update this index on a monthly basis to give the public a comprehensive view of the status of a broad range of wealth management products commonly seen in the retail banking industry in the PRC. These products further enhance our brand awareness and, particularly, our "Jin Sheng Cai Fu (晉升財富)" branded retail banking services. In recognizing our strong wealth management and private banking services, including the technology capability in compiling and publishing the "China Wealth Management Income Index (中國財富管理收益指數)", we were granted the *2017 Best Wealth Management Bank of the Year* (年度最佳財富管理銀行) by National Business Daily Network (每經新聞網) in December 2017.

In line with our business development strategy, we pay particular attention to promoting our brand awareness and market recognition through developing financial products and services catered for various consumption scenarios. Besides enhancing user experience of our online and mobile banking services, we launched our own mobile payment platform, "Jinshang Quick Pay (晉商快付)" in late 2016, which allows customers to make payment by a quick scan of the QR code. By offering convenient mobile payment services, this product successfully served as a gateway for us to attract and retain quality retail banking customers and merchants, which in turn allows us to be better positioned in promoting our various financial products and services. For more information on Jinshang Quick Pay, please also see the section headed "– Corporate Banking – Other Fee- and Commission-Based Corporate Banking Products and Services – Mobile Payment Services". During the Track Record Period, we also held various on-site sales and marketing activities in schools, residential communities and business districts to promote our products by directly appealing to the financial needs of relevant customer groups.

Financial Markets

Overview

Our financial markets business primarily consists of interbank market transactions, investment management, wealth management, debt securities distribution, and bill discounting and rediscounting. For the years ended December 31, 2016 and 2017, the operating income generated from our financial markets business amounted to RMB541.5 million and RMB496.2 million, respectively. For the year ended December 31, 2018, the operating income generated from our financial markets business amounted to RMB218.6 million.

Interbank Market Transactions

Our interbank market transactions business primarily consists of: (i) interbank deposits; (ii) interbank placements; and (iii) purchase under resale agreement and sale under repurchase agreement, which mainly involves bonds and bills.

Interbank Deposits

As of December 31, 2016, 2017 and 2018, our deposits with banks and other financial institutions was RMB843.9 million, RMB858.4 million and RMB792.3 million, respectively, and our deposits from banks and other financial institutions was RMB30,021.8 million, RMB11,468.7 million and RMB2,513.7 million, respectively.

Interbank Placement

As of December 31, 2016, 2017 and 2018, our placements with banks and other financial institutions was nil, RMB500.0 million and RMB500.1 million, respectively, and our placements from banks and other financial institutions was RMB100.0 million, RMB500.0 million and RMB100.0 million, respectively.

Purchase under Resale Agreement and Sale under Repurchase Agreement

As of December 31, 2016, 2017 and 2018, our financial assets purchased under resale agreements was RMB5,730.4 million, RMB11,305.3 million and RMB24,180.0 million, respectively, and our financial assets sold under repurchase agreements was RMB1,241.2 million, RMB10,301.2 million and RMB8,680.4 million, respectively. The underlying financial assets in these transactions primarily comprise debt securities issued by PRC Government, policy banks, commercial banks and enterprises, as well as bills.

The interest rate for a purchase under resale agreement or sale under repurchase agreement transaction refers to the interest paid or earned from such transaction, which is the difference between the initial sale price and the buyback price, presented in the form of per annum percentage. As of December 31, 2016, 2017 and 2018, the interest rate for our financial assets purchased under resale agreements was in the ranges of 1.80% to 4.00%, 2.04% to 5.75%, and 1.44% to 5.50%, respectively. As of December 31, 2016, 2017 and 2018, the interest rates for our financial assets sold under repurchase agreements were in the range of 1.85% to 4.38%, 2.02% to 5.50%, and 1.35% to 5.00%, respectively.

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 refers to 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 and expected yields of relevant products, as well as overall economic conditions and relevant regulatory development. The fact that interest income from certain debt securities and funds is non-taxable is also one of various factors that we consider. Based on the result of our analysis on these factors, we from time to time adjust our investment portfolio to enhance profitability with risks being properly managed. 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" and "Risk Factors – Risks Relating to Our Business – We cannot assure you that we will continue to enjoy a lower effective tax rate."

As of December 31, 2016, 2017 and 2018, our debt securities investment and SPV investment amounted to RMB74,107.1 million, RMB70,859.4 million and RMB74,255.8 million, respectively, accounting for 42.7%, 34.3% and 32.7%, respectively, of our total assets as of the same dates. The following table sets forth a breakdown of the total balance of our debt securities investment, SPV investment and other investment as of the dates indicated.

	As of December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Debt securities investment	14,086.7	19.0%	16,703.1	22.8%	23,030.3	29.8%
SPV investment	60,020.4	80.9%	54,156.3	74.0%	51,225.5	66.6%
Other investment(1)	58.1	0.1%	2,363.2	3.2%	2,762.0	3.6%
Total financial investments	**74,165.2**	**100.0%**	**73,222.6**	**100.0%**	**77,017.8**	**100.0%**

Note:

(1) Consist primarily of certificates of interbank deposit.

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 enterprises. The following table sets forth the breakdown of our debt securities investment as of the dates indicated.

	As of December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Debt Securities issued by PRC Government	7,060.6	50.1%	10,909.9	65.3%	17,191.8	74.7%
Debt securities issued by policy banks	4,679.5	33.2%	4,356.8	26.1%	4,090.4	17.8%
Debt securities issued by commercial banks and other financial institutions	138.5	1.0%	95.5	0.6%	494.2	2.1%
Debt securities issued by corporate issuers	2,208.1	15.7%	1,340.9	8.0%	1,253.9	5.4%
Total debt securities	**14,086.7**	**100.0%**	**16,703.1**	**100.0%**	**23,030.3**	**100.0%**

As of December 31, 2016, 2017 and 2018, our debt securities investment amounted to RMB14,086.7 million, RMB16,703.1 million and RMB23,030.3 million, respectively, accounting for 8.1%, 8.1% and 10.1%, respectively, of our total assets as of the same dates. For the years ended December 31, 2016, 2017 and 2018, interest income generated from our debt securities investment amounted to RMB641.3 million, RMB525.9 million and RMB646.3 million, respectively, accounting for 8.4%, 6.4% and 7.7%, of our total interest income, respectively, for the same periods. For details on the interest income from debt securities investment and the relevant average yields, see "Financial Information – Results of Operations for the Years Ended December 31, 2016 and 2017 – Interest Income – Interest Income from Financial Investments" and "Financial Information – Results of Operations for the Years Ended December 31, 2017 and 2018 – Interest Income – Interest Income from Financial Investments".

We have a professional 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 – Interest Rate Risk Management".

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, held-to-maturity investments 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 amortized 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, 2016, 2017 and 2018, our SPV investment amounted to RMB60,020.4 million, RMB54,156.3 million and RMB51,225.5 million, respectively, accounting for 34.6%, 26.2% and 22.5%, respectively, of our total assets as of the same dates. For the years ended December 31, 2016, 2017 and 2018, interest income generated from our SPV investment amounted to RMB2,894.4 million, RMB2,596.3 million and RMB1,437.3 million, respectively, accounting for 37.8%, 31.7%, and 17.2%, of our total interest income, respectively, for the same years. For details on the interest income from SPV investment and the relevant average yields, see "Financial Information – Results of Operations for the Years Ended December 31, 2016 and 2017 – Interest Income – Interest Income from Financial Investments" and "Financial Information – Results of Operations for the Years Ended December 31, 2017 and 2018 – 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.

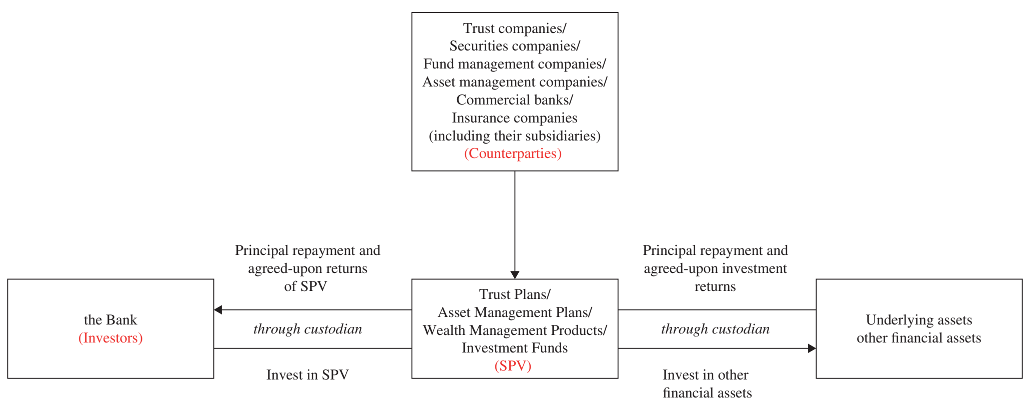
	As of December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Trust plans	27,328.6	45.5%	13,596.5	25.1%	11,452.0	22.3%
Asset management plans	29,010.5	48.3%	34,909.4	64.5%	22,837.8	44.6%
Wealth management products	150.0	0.2%	1,550.0	2.9%	50.2	0.1%
Investment funds	3,531.3	6.0%	4,100.4	7.5%	16,885.5	33.0%
Total	**60,020.4**	**100.0%**	**54,156.3**	**100.0%**	**51,225.5**	**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. During the Track Record Period, all of the counterparties for our SPV investment were licensed to conduct their business under applicable laws and regulations.

For details of 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 investments".

Our SPV investments are conducted mainly through trust plans, asset management plans, wealth management products and investment funds. Counterparties are obliged to manage our funds according to pre-determined terms including investment period, underlying assets and performance benchmarks.

The following chart illustrates the relationship among the parties involved in our SPV investments.



Our SPV investments 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 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 amortized 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 offered both principal protected and non-principal protected wealth management products to our clients. We also set different 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.

During the Track Record Period, our corporate wealth management products mainly included (i) "Wen Ying Bao Ben (穩盈保本)" series, a principal protected product with fixed return; and (ii) "Xi Ying (喜盈)" series, a non-principal protected product with floating yields. Please also see the section headed "– Corporate Banking – Other Fee- and Commission-Based Corporate Banking Products and Services – Corporate Wealth Management Services".

For our retail banking business, we issued a principal-protected series named "An Ying (安盈)", and non-principal protected wealth management products including (i) "Duo Ying (多盈)" series designed for customers who have medium or low risk preference; (ii) "Feng Ying (豐盈)" series designed for customers who have medium risk preference; and (iii) "Ri Ri Ying (日日盈)" series where, depending on the actual investment return, the principal is to be repaid to investors on a daily, weekly, monthly or quarterly basis, together with interest generated up to repayment, based on the varying maturities of the products. For details on our other personal wealth management products, please also see the section headed "– 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 periods indicated.

	For the year ended December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except for percentages)					
Principal protected products	11,908.8	15.6%	11,441.5	15.8%	12,562.9	21.6%
Non-principal protected products	64,426.6	84.4%	61,005.9	84.2%	45,699.3	78.4%
Total	**76,335.4**	**100.0%**	**72,447.4**	**100.0%**	**58,262.2**	**100.0%**

For the years ended December 31, 2016, 2017 and 2018, wealth management products we issued amounted to RMB76,335.4 million, RMB72,447.4 million and RMB58,262.2 million, respectively. As of December 31, 2018, we had over 223,000 wealth management 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 periods indicated.

	For the year ended December 31,					
	2016		2017		2018	
	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	18	676.8	39	1,463.4	32	2,353.7
Over RMB50 million to RMB100 million	50	4,589.9	64	7,108.0	100	10,124.2
Over RMB100 million	273	71,068.7	271	63,876.0	254	45,784.3
Total	**341**	**76,335.4**	**374**	**72,447.4**	**386**	**58,262.2**

Since the second half of 2017, we have gradually reduced the volume of wealth management products we issued, in line with the regulatory authorities' implementation of a series of new guidelines restricting all financial institutions' sale of principal-protected wealth management products. For details on the relevant rules and regulations, please see "Supervision and Regulations" and "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 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.

Pursuant to 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》) (CBIRC Order 2018 No. 6) issued by the CBIRC on September 26, 2018, we classify our wealth management products into five categories based on their risk levels: Level 1 refers to low risk; Level 2 refers to low-medium risk; Level 3 refers to medium risk; Level 4 refers to medium-high risk and Level 5 refers to high risk. We did not issue any Level 4 or Level 5 wealth management products during the Track Record Period. The following table sets forth details of the wealth management products we issued by risk levels during the periods indicated.

	For the year ended December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except for percentages)					
Risk Level						
Level 1	11,908.9	15.6%	11,441.5	15.8%	12,562.9	21.6%
Level 2	64,426.6	84.4%	60,754.5	83.9%	44,889.9	77.0%
Level 3	–	–	251.4	0.3%	809.4	1.4%
Total	**76,335.4**	**100.0%**	**72,447.4**	**100.0%**	**58,262.2**	**100.0%**

We invest the proceeds raised from our wealth management products mainly in debt securities, which accounted for 92.7%, 94.3% and 95.3% of the balance of our wealth management products as of December 31, 2016, 2017 and 2018, respectively.

Debt Securities Distribution

Our investment banking team participates in the debt securities distribution business to provide our customers with comprehensive financial services, to further leverage our strong capacity in managing capital market transactions, and to broaden our customer base. Capitalizing on our expertise in debt securities and analytical capacity on China's economy, we believe we are able 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 the preliminary and Class-B qualification for underwriting debt financing instruments issued by non-financial enterprises in 2016 and 2019, respectively, the latter of which allows us to act as a lead underwriter in the regional market. For the year ended December 31, 2017 and 2018, the aggregate principal amount of debt securities we distributed amounted to RMB30.0 billion and RMB56.9 billion, respectively. In 2017, we were awarded Outstanding Member in China's Bond Market – Progressive Institution for Treasury Savings Bonds (Digital) (中國債券市場優秀成員-儲蓄國債(電子式)進步機構獎) and Outstanding Member in China's Bond Market – Outstanding Institution for Treasury Savings Bonds (Digital) (中國債券市場優秀成員-儲蓄國債(電子式) 優秀機構獎) by China Central Depository & Clearing Co., Ltd. (中央國債登記結算有限責任公司).

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 buyout, bills sell-out, bills held under reverse repurchase agreements and 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 policies and benchmark prices are formulated and determined by our Assets and Liabilities Management Committee (資產負債管理委員會) at our head office. 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.

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 guidance prices and the market conditions. Products and services involving the implementation of 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 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".

AWARDS

During the Track Record Period, we achieved rapid and robust growth. In 2018, we were ranked 440th among the "Top 1000 World Banks" in terms of tier-one capital as of December 31, 2017 by *The Banker,* moving up 136 places compared with our ranking in 2017. Some of our other prominent honors and awards in recent years include:

- 2018 Most Promising Bank Card Business Award (銀行卡業務最具潛力獎) granted by China UnionPay (中國銀聯)

- 2018 Progressive Award for Distributors of Debt Financing Plans (債券融資計劃承銷業務銳意進取獎) granted by Beijing Financial Assets Exchange (北京金融資產交易所)

- 2018 Direct Banking Innovative Application Award (直銷銀行創新應用獎) received at the 14th Annual Conference of China E-Bank (第十四屆中國電子銀行年度盛典), hosted by the China Financial Certification Authority (or CFCA, 中國金融認證中心)

- 2018 Financial Business Channel Innovation Outstanding Contribution Award (金融行業渠道創新突出貢獻獎) granted at the 2018 China Fintech Innovation & Investment Annual Summit (中國金融科技年會) and the ninth Fintech and Excellent Service Awards Ceremony (第九屆金融科技及服務優秀獎頒獎典禮), hosted by the Financial Computerizing Magazine (金融電子化雜誌)

- 2017 and 2018 Top Ten City Commercial Banks (十佳城商銀行) received at the 21st and 22nd China Local Finance Annual Forum (中國地方金融第21次、第22次論壇年會), respectively, hosted by the China Academy of Regional Finance (中國地方金融研究院)

- 2017 Best Wealth Management Bank of the Year (年度最佳財富管理銀行) awarded by the China Financial Development Forum and the Eighth Golden Tripod Awards (中國金融發展論壇暨第八屆金鼎獎) held by National Business Daily Network (每經新聞網)

- 2017 Golden Pine Award for Best Aggregate Payment Product (金松獎最佳聚合支付產品獎) granted by Mobile Payment Network's third Golden Pine Awards series (移動支付網第三屆"金松獎")

- 2017 Outstanding Member in China's Bond Market – Progressive Institution for Treasury Savings Bonds (Digital) (中國債券市場優秀成員–儲蓄國債(電子式)進步機構獎) and Outstanding Member in China's Bond Market – Outstanding Institution for Treasury Savings Bonds (Digital) (中國債券市場優秀成員–儲蓄國債(電子式) 優秀機構獎) awarded by China Central Depository & Clearing Co., Ltd. (中央國債登記結算有限責任公司)

- 2017 Most Promising Mobile Bank (最佳成長潛力手機銀行) recognized by CBN China Financial Value Ranking (第一財經金融價值榜)

- 2016 China Financial Innovative Award – Best Ten Innovative Wealth Management Awards (中國金融創新獎–十佳財富管理創新獎) issued at the 2016 China Financial Innovative Forum (中國金融創新論壇) hosted by *The Banker* (銀行家)

- 2016 Advanced Service Provider for Micro and Small Enterprises (小微企業金融服務先進單位) awarded by CBRC Shanxi Office (中國銀監會山西監管局)

MARKETING

We have adopted a customer-centered approach in operating our business and providing our customers with multi-level and comprehensive banking services. Our head office takes the initiative in formulating bank-wide business plans and marketing strategies, whereas each branch and sub-branch carries out implementation plans in their respective regions.

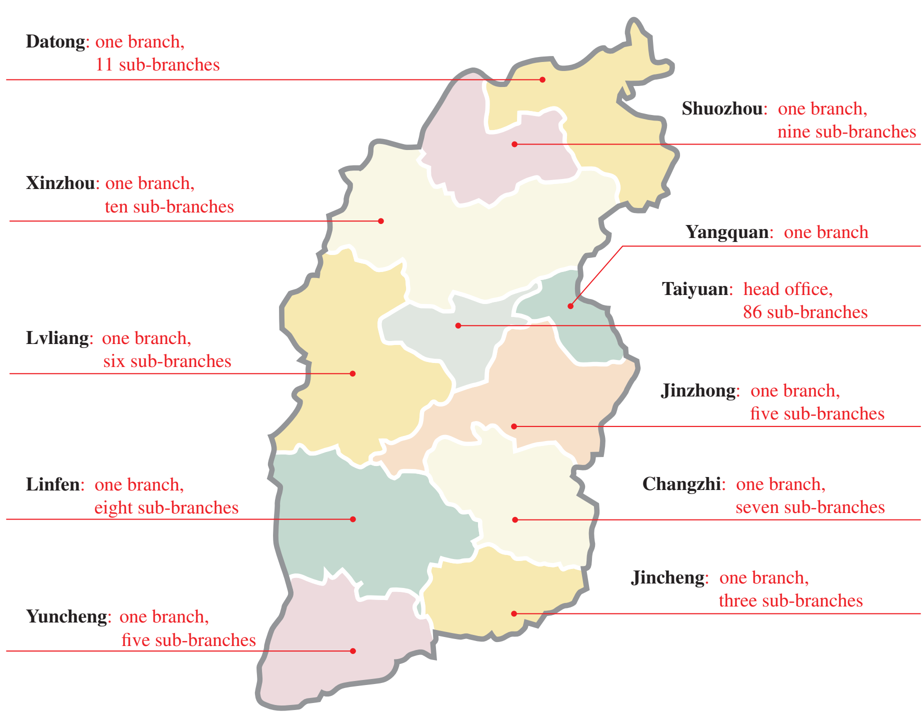
DISTRIBUTION NETWORK

We provide banking products and services through our extensive distribution channels, consisting of a branch network, self-service banking facilities, and electronic banking channels. We see our physical branches and sub-branches as the cornerstone of our steady growth. At the same time, we invest in the continuous upgrade and expansion of our self-service banking facilities and electronic banking channels. For the years ended December 31, 2017 and 2018, transactions processed through our self-service banking facilities and electronic channels accounted for approximately 69.6% and 79.2%, respectively, of our total amount of transactions for the same periods.

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, 2018, we had one head office, ten branches, 150 sub-branches (including four sub-branches directly administered by the head office, 128 city-level sub-branches and 18 county-level sub-branches) and one 51.0% owned subsidiary, Qingxu Village and Township Bank. In total, we had 160 outlets, which covered all 11 prefecture-level cities in Shanxi Province.

The following map shows the distribution of our outlets as of December 31, 2018.



The following table sets forth the number of our outlets as of the dates indicated.

	As of December 31,					
	2016		2017		2018	
	Number	% of total	Number	% of total	Number	% of total
Taiyuan	85	54.1%	87	54.0%	86	53.8%
Datong	12	7.6%	12	7.5%	12	7.5%
Xinzhou	10	6.4%	11	6.8%	11	6.9%
Shuozhou	10	6.4%	10	6.2%	10	6.3%
Linfen	9	5.7%	9	5.6%	9	5.6%
Changzhi	8	5.1%	8	5.0%	8	5.0%
Lvliang	7	4.5%	7	4.4%	7	4.4%
Yuncheng	7	4.5%	7	4.4%	6	3.8%
Jinzhong	6	3.8%	6	3.7%	6	3.8%
Jincheng	2	1.3%	3	1.9%	4	2.5%
Yangquan	1	0.6%	1	0.6%	1	0.6%
Total	**157**	**100.0%**	**161**	**100.0%**	**160**	**100.0%**

We rely on our extensive branch network in developing our brand and providing quality services to our customers. We have continuously set up new branches and sub-branches to cover new areas and relocated the existing market outlets, so that we could optimize our distribution network coverage, streamline business structure and expand our customer base by improving our penetration in existing regions while expanding our reach in new areas. During the Track Record Period, we set up 41 new branches and sub-branches (including five sub-branches at the county level), and relocated eight outlets. In the future, we plan on further expanding our network at the county level, in line with the government's policy of building an inclusive financial system for a broader community. To reduce our operational costs, we closely monitor changes in office rental prices and conduct regular research aimed specifically at cost reduction and network optimization.

In addition, our self-service banking facilities include ATMs, deposit and withdrawal machines, and automatic inquiry and payment machines. These machines provide customers with convenient banking services while allowing us to reduce operating costs. Services provided through these facilities include balance inquiry, cash deposit and withdrawal, fund transfer, and payment of public utility bills.

Besides self-service banking facilities located within our outlets, we also set up stand-alone self-service centers in various regions to supplement our distribution network. We prioritize placing these centers in major commercial and shopping areas or in proximity to our strategic customers, such as large industrial parks, hospitals, and universities, so as to strengthen our relationship with, and better serve, our existing clients.

As of December 31, 2018, we had a total of 338 self-service banking facilities located within our outlets, and 35 stand-alone self-service centers.

Electronic Banking Channels

We began offering electronic banking services to supplement our branch network and self-service banking facilities in 2009, when we initiated our telephone banking services. Currently, our electronic channels provide comprehensive financial services through platforms including online banking, mobile banking, direct banking, and telephone banking.

Online Banking

Our online banking platform, accessible via our website **www.jshbank.com**, offers a broad range of financial products and services to both corporate banking and retail banking customers. For corporate banking customers, we provide various services, including account inquiry and management, payment and settlement, payroll services, and money transfer and remittance. For our retail banking customers, we offer account inquiry and management, money transfer and remittances, wealth management products, bill payment and personal loans.

As of December 31, 2018, we had a total of approximately 531.1 thousand online banking customers, including approximately 13.4 thousand corporate banking customers and approximately 517.7 thousand retail banking customers. For the year ended December 31, 2018, an aggregate transaction volume of RMB495,261.2 million was processed through our online banking platform.

Mobile Banking

We began offering our mobile banking services through our client end in November 2013. A variety of services are offered through our mobile banking app, including account inquiry and management, money transfer, wealth management products and bill payment. To better secure mobile banking transactions, we provide our customers with a short message services (SMS) notification service, whereby we send them SMS notifications relating to bank account transactions, account safety verification, and risk alerts.

As of December 31, 2018, we had approximately 739.8 thousand mobile banking users. For the year ended December 31, 2018, an aggregate transaction volume of RMB77,415.4 million were processed through our mobile banking platform.

In addition, we opened our official WeChat account in February 2014, which has become an important hub for our communications with the customers. Our customers can open bank account, purchase wealth management products and check bank account information by following this account. As of December 31, 2018, our official WeChat account had 102,481 subscribers.

Direct Banking

We commenced direct banking business in September 2015 and have invested in the continuous technology upgrade and service improvement for this operation. In managing this business, we have successfully established a multi-functional online platform where customers may conveniently purchase a broad range of financial products and services, including investment and financing products, funds offered by third parties, and deposit services. In selecting and promoting financial products and services to be listed on direct banking channels, we focus on those with innovative functions and specifications tailored to different target customer groups, in order to improve brand awareness of our direct banking services and enhance our competitiveness. For details on the signature deposit product we offer to retail banking customers through direct banking business, please see section headed "Our Business Lines – Retail Banking".

Capitalizing on our long-term relationship with third-party IT service providers, we have also made our direct banking services a convenient gateway for customers to access day-to-day services, such as online shopping, registration for medical services and flight information checking. These services helped us capture potential financial needs of customers in their daily life and improved the attraction and foot-flow of our direct banking channel. As of December 31, 2018, our direct banking business had approximately 86.5 thousand customers.

Telephone Banking

Starting in September 2009, we began offering telephone banking services to both retail banking and corporate banking customers, including automated voice services and teller-operated services through our 24-hour nationwide customer service hotline "9510-5588". Our telephone banking services include account inquiries and management, assistance with certain transactions, business inquiries, and emergency reporting on lost and stolen cards.

Qingxu Village and Township Bank

As of December 31, 2018, our Bank held a 51.0% equity interest in Qingxu Village and Township Bank (清徐村鎮銀行). As of December 31, 2016, 2017 and 2018, the total assets of Qingxu Village and Township Bank amounted to RMB593.2 million, RMB830.3 million and RMB717.4 million, respectively. For the years ended December 31, 2016, 2017 and 2018, our operating income generated from Qingxu Village and Township Bank amounted to RMB35.4 million, RMB44.0 million and RMB41.1 million, respectively, accounting for 0.9%, 1.0% and 0.9% of our total operating income for the same periods. For the years ended December 31, 2016, 2017 and 2018, net profit of Qingxu Village and Township Bank amounted to RMB11.0 million, RMB7.0 million and RMB6.8 million, respectively. As of December 31, 2018, Qingxu Village and Township Bank had one outlet and 47 employees.

Qingxu Village and Township Bank provides local corporate and retail banking customers with various financial products and services, primarily corporate and personal loans, deposit products, and settlement services. Qingxu Village and Township Bank's mission is to provide financial support to farmers, micro and small enterprises, and rural development in the Qingxu County.

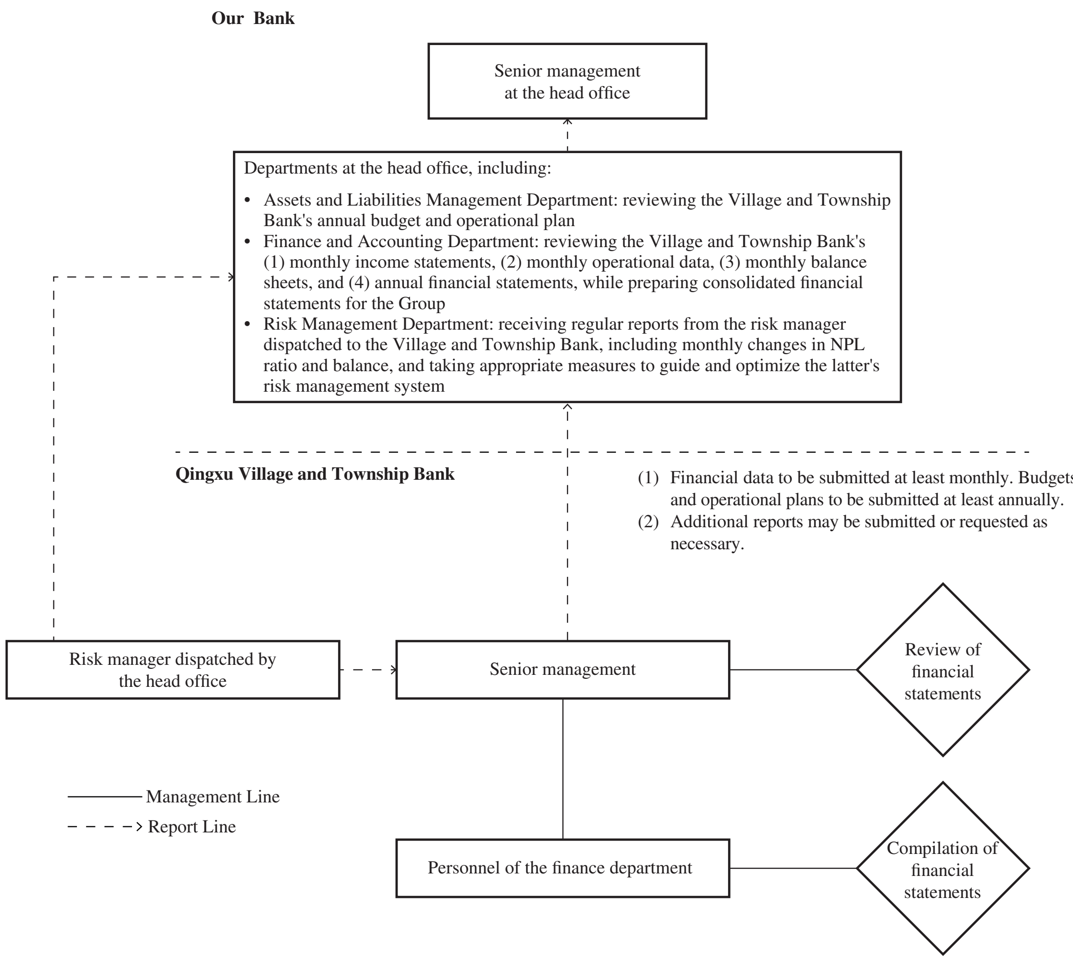
Management of Qingxu Village and Township Bank

Qingxu Village and Township Bank is an independent legal entity regulated by the CBIRC. In compliance with the requirements of the CBIRC, our Bank respects the independent identity of Qingxu Village and Township Bank and strives to maintain its autonomous operation. We believe an autonomous operation business model enables Qingxu Village and Township Bank to leverage its local network and customer relationships, and to become more responsive to changes in the local market.

Our Bank generally allows Qingxu Village and Township Bank to make its own business decisions and maintain its own information technology, risk management, internal control and financial reporting systems, while the Bank, as the controlling shareholder, is entitled to cast the deciding vote on all ordinary matters submitted to the shareholders' meeting of Qingxu Village and Township Bank for approval. Meanwhile, our Bank manages Qingxu Village and Township Bank through providing overall strategic guidance, monitoring the implementation of its internal policies, and participating in its significant decision-making processes. Specifically, Qingxu Village and Township Bank submits its annual budget and operational plan to the Assets and Liabilities Management Department (資產負債管理部) at our head office for the latter's review and approval. The Bank, through its Finance and Accounting Department (財務會計部), reviews Qingxu Village and Township Bank's financial statements, at least monthly, to detect any abnormalities that may affect its financial soundness. As of the Latest Practicable Date, we nominated three out of the five directors at Qingxu Village and Township Bank's board of directors, who currently serve as the chairman, the president and the vice president, and nominated one of its supervisors, who currently serves as its chief supervisor.

Qingxu Village and Township Bank adopts a separate information technology system that operates independently from that of our Bank. Although we have not incorporated the information technology systems of Qingxu Village and Township Bank into our real-time financial reporting system, we are able to access and manage key data and information of Qingxu Village and Township Bank on a timely basis, primarily through requiring Qingxu Village and Township Bank to make periodic or *ad hoc* reports to the Bank. For example, Qingxu Village and Township Bank's financial department submits routine reports on the position of its loan books and deposit accounts to its chairman, president, vice president and chief supervisor, all of whom are responsible for promptly alerting the Bank upon the discovery of any irregularities. Furthermore, the Bank has dispatched a risk manager to Qingxu Village and Township Bank who submits routine reports on the risk management status of Qingxu Village and Township Bank, such as credit risks identified and the corresponding measures taken, to the Bank's Risk Management Department for the latter's further review. In addition, Qingxu Village and Township Bank is required to report urgent or important matters, such as administrative penalties and anticipated operating losses, immediately to our Bank.

The following chart further illustrates the management and reporting mechanism between our Bank and Qingxu Village and Township Bank, which facilitates prompt and effective communication between the two.



Compliance and Internal Control

As a separate legal entity, Qingxu Village and Township Bank is subject to inspections and reviews by the PRC regulatory authorities (including the PBoC, CBIRC, and SAT) and their respective local offices. Qingxu Village and Township Bank has its own compliance system and must individually satisfy the relevant regulatory requirements. During the Track Record Period and up to the Latest Practicable Date, except for the incidents described below, Qingxu Village and Township Bank complied with the regulatory requirements in all material respects.

In May 2017, CBRC Shanxi Office imposed a RMB200,000 penalty for the Village and Township Bank's inadequate pre-loan investigation and lack of monitoring on the use of proceeds with regards to certain loans. Upon receiving the notice, our Bank requested that the village and township bank conduct an investigation on the non-compliant incidents and that its responsible persons be held accountable. During the Track Record Period and up to the Latest Practicable Date, Qingxu Village and Township Bank had not received any other administrative penalties. During the Track Record Period and up to the Latest Practicable Date, inspections carried out by the PRC regulatory authorities had identified certain deficiencies in relation to Qingxu Village and Township Bank's corporate governance and internal control. For more details, please see "– Legal and Administrative Proceedings – Regulatory Inspections and Proceedings – Findings of Regulatory Examinations".

Given that (i) Qingxu Village and Township Bank represented only an insignificant financial contribution to our consolidated financial statements; (ii) the maximum fines that may be imposed on Qingxu Village and Township Bank represent a *de minimis* portion of our operating income; and (iii) there was no material impact resulting from the non-compliance by Qingxu Village and Township Bank, we believe that the non-compliant incidents listed above have no material adverse effect on the business, operations and financial results of our Bank on a consolidated basis. For more details on the potential risks arising from Qingxu Village and Township Bank, please see "Risk Factors – Risks Relating to Our Business – We may not be able to effectively manage the risks associated with our Qingxu Village and Township Bank".

In particular, we have implemented the following measures to enhance Qingxu Village and Township Bank's compliance with the regulatory requirements:

- provide guidance to Qingxu Village and Township Bank in establishing and optimizing various compliance and internal control systems, including anti-money laundering systems, regulatory reporting systems and internal compliance management systems;

- dispatch senior management personnel, including a full-time risk manager, to Qingxu Village and Township Bank to better monitor and improve the soundness of its operation;

- provide guidance to Qingxu Village and Township Bank on measures to rectify its non-compliance with regulatory requirements; require Qingxu Village and Township Bank to submit rectification plans and reports to the head office within a specified period; and hold the responsible persons accountable.

Qingxu Village and Township Bank has established its own anti-money laundering system and procedures in strict compliance with the applicable rules and regulations promulgated by the PBoC. As an independent legal entity, Qingxu Village and Township Bank conducts its own anti-money laundering analysis, identifies and monitors suspicious transactions, and keeps record of large transactions and available information of its customers. It also makes routine reports to the PBoC which contain a summary of the major suspicious transactions identified that day. Meanwhile, the Bank provides support and guidance to, and supervises when necessary, the implementation of anti-money laundering policies within Qingxu Village and Township Bank. In particular, the Bank provides anti-money laundering training to the staff at Qingxu Village and Township Bank so that they may have access to the latest knowledge and best-practice measures relating to the topic.

For more details on our risk management measures applicable to Qingxu Village and Township Bank, please see "Risk Management – Risk Management in Relation to Our Qingxu Village and Township Bank".

Consumer Finance Company

In February 2016, we, as one of the promoters, established Jinshang Consumer Finance (晉商消費金融). Jinshang Consumer Finance engages in a range of businesses, primarily the provision of personal loans, provision of consumer finance-related consulting services, and agency sales of personal insurance products. As of December 31, 2018, we held 40.0% of its equity interest, while the remaining is held by four independent third-party entities each having 25.0%, 20.0%, 8.0% and 7.0% of the equity interest, respectively. For the years ended December 31, 2016, 2017 and 2018, our share of profits from Jinshang Consumer Finance amounted to RMB0.4 million, RMB18.1 million and RMB33.2 million, respectively.

Jinshang Consumer Finance is an independent legal entity regulated by the CBIRC. In compliance with the requirements of the CBIRC, we respect the independent operation of Jinshang Consumer Finance and maintain its autonomous operation. We guide and supervise the material aspects of the operations, finance, investments, compliance and human resources of Jinshang Consumer Finance through enforcing our rights as its shareholder. As of December 31, 2018, among the seven directors on the board of this company, three were nominated by us, including the chairman of the board and two directors.

As a separate legal entity, Jinshang Consumer Finance is subject to inspections and reviews by the PRC regulatory authorities (including the PBoC, CBIRC, and SAT) and their respective local offices. During the Track Record Period and up to the Latest Practicable Date, Jinshang Consumer Finance had complied with the regulatory requirements in all material respects. In 2018, Jinshang Consumer Finance was exposed to negative media coverage due to consumer dissatisfaction against its business partners. For more details, please see "Risk Management – Risk Management in Relation to Jinshang Consumer Finance" and "Risk Factors – 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 subsidiary and associate, or China's banking industry in general, even if such negative publicity is inaccurate, unsubstantiated or immaterial".

INFORMATION TECHNOLOGY

Overview

We have established a resilient, agile 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, 2018, our information technology team, comprising information technology professionals and experts, had 80 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.

Information Technology System

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 engage industry-leading products and technologies.

Our Information Technology Department takes charge of the management of our technology infrastructure, application system and information security. Our Information Technology Management Committee is responsible for formulating and implementing strategic plans in relation to information technology as well as reviewing and approving key information technology projects.

We adopted various advanced technical means to enhance the security of our information technology systems and business operations, and established one same-city backup center and one offsite backup center for disaster recovery which, together with our main data center, constitute the “two locations, three centers” disaster recovery system, to ensure business continuity in the event of major disruption or failure of our main data center. For details regarding our information technology risk management, please see "Risk Management – Information Technology Risk Management".

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 usage of personal data. PRC data privacy laws require the data owner to consent to the data collection and agree to its usage. Upon opening an account with us, our customers are required to confirm that they have read and agreed to the terms and conditions, including our data privacy statement contained therein. Our data privacy statement specifies that the collection and usage of any personal data will be in accordance with PRC laws and regulations and that the personal data being collected can be used for purposes of the designated business only.

Depending on the types of products and services our customers choose, and with their consent, we may collect the following categories of personal data during the course of our business: (i) basic personal and contact information (such as name, birthday, gender, mobile phone number, e-mail address, and delivery address); (ii) social activities (such as current employer, job title, and educational background); and (iii) financial information (such as proof of income, credit rating report, and other documents furnished during pre-loan investigation). Our customers' personal data is stored at our own facilities. Personal data we collect is stored for a period between 10 years and 30 years, depending on the nature of the business or transaction from which the data is obtained, in accordance with our internal policy and guidelines. To minimize the risk of data loss or leakage, we also conduct regular data backup and data recovery tests, and encrypt user data in network transmission.

We have established a strict bank-wide policy on data collection and processing and have implemented a series of internal control measures to preserve individual personal information and protect customer privacy. Our "Jinshang Bank Financial Information Safety Management Measures for Individual Customers (《晉商銀行個人客戶金融信息安全管理辦法》)" sets out key principles and policies governing the collection, storage, transmission, and protection of personal data. Employees who have access to our customers' database are required to sign an information safety responsibility letter (信息安全責任書). Furthermore, our staff are required to go through the following procedures when processing personal data: (i) providing adequate notice to customers as to why and how their data is being collected and used, (ii) making reasonable efforts to prevent loss or leakage of any personal data, including implementing a strict authorization procedure before granting an employee or department's request for access to personal data, so as to ensure only valid and legitimate requests are executed, and (iii) adhering to the scope and purposes for the authorized use of personal data throughout the handling process. Upon detecting any breach of our data privacy and protection policy, we subject the relevant employees to strict disciplinary actions and, depending on the severity of the incident, make prompt reports to the PBoC in accordance with the relevant laws and regulations.

We, as the owner of the personal data we collect from our customers, do not distribute or sell our customers' personal data to other companies for advertising or other purposes without their permission. When it is necessary to grant access to our customers' database to a third party for certain limited purposes, such as to facilitate an external auditor's examination or an IT service provider's testing of our system, our staff must submit a written request to the head office and explain the circumstances justifying the access. We further require that the third parties sign a confidentiality agreement and confirm they would preserve and protect the personal data in line with the agreement, refrain from using the data for any purposes outside of the specified scope, and destroy all relevant data and files immediately after the use. We may pursue legal actions against any business partner who violates data privacy and protection-related provisions of the agreements we have signed with them.

As advised by King & Wood Mallesons, our PRC Legal Advisor, we are in compliance with the applicable PRC laws, rules and regulations relating to the collection, use, disclosure or security of personal information in all material respects.

COMPETITION

The banking industry in China has become increasingly competitive. We primarily compete with other commercial banks in Shanxi Province. Please see "Industry Overview – China Banking Industry". We also face competition from other banking institutions. The principal competitive factors in the banking industry include capital strength, 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 believe that we are a strong player in our markets, although other competitors may have certain advantages over us. Among the advantages that many of the large institutions have are their abilities to finance extensive advertising campaigns, maintain extensive branch networks and make larger technology investments, and to offer services which we are not yet able to offer.

In response to the aforementioned competitive environment, we plan to expand our service network, further strengthen our influence in the relevant markets, innovate our products and services, and improve our information technology infrastructure so that we can stay competitive in the commercial banking industry.

EMPLOYEES

Attracting and retaining qualified employees is vital to our success. We offer competitive remuneration and are dedicated to talent cultivation and development. As of December 31, 2018, we had a total of 4,137 full-time employees, all of whom were located in Shanxi Province. The following table sets forth the number of our full-time employees by function as of December 31, 2018.

	As of December 31, 2018	
	Number of employees	**% of total**
Corporate banking	402	9.7%
Retail banking	1,143	27.6%
Financial markets	47	1.1%
Teller	1,321	31.9%
Finance and accounting	47	1.1%
Risk management, internal audit and legal and compliance	249	6.0%
Information technology	80	1.9%
Management	453	10.9%
Safety and general	312	7.5%
Others	83	2.0%
Total	**4,137**	**100.0%**

The following table sets forth the total number of our full-time employees by age as of December 31, 2018.

	As of December 31, 2018	
	Number of employees	**% of total**
Aged 30 or below	1,907	46.1%
Aged 31 – 35	1,004	24.3%
Aged 36 – 40	208	5.0%
Aged 41 – 45	352	8.5%
Aged 46 – 50	546	13.2%
Aged over 50	120	2.9%
Total	**4,137**	**100.0%**

The following table sets forth the total number of our full-time employees by education level as of December 31, 2018.

	As of December 31, 2018	
	Number of employees	% of total
Master's degree and above	716	17.3%
Bachelor's degree	2,678	64.7%
College/Associate degree and below	743	18.0%
Total	**4,137**	**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. We actively collaborate with prestigious universities and industry associations in the PRC and overseas, so as to offer cutting-edge courses on global and domestic economy, as well as leadership and management skills, to our senior and mid-level management team. For the executive personnel at our branches and sub-branches, we provide annual week-long centralized training sessions themed in management upgrade, practical skills enhancement, and team building.

We also take great pride in the various recognition and awards our employees have received in the banking industry. Since 2016, nine of our employees have been named China's Top 100 Financial Planners (中國百佳金融理財師), awarded at the Annual Conferences for Financial Planners (中國金融理財師年會) hosted by the FPSB (Financial Planning Standards Board, 現代國際金融理財標準委員會).

In compliance with the PRC laws and regulations, we contribute to our employees' social security and other benefits program including pension, medical insurance, unemployment insurance, work-related injury insurance, maternity insurance, housing allowances and corporate annuity.

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.

As of the Latest Practicable Date, we did not engage any independent contracted workers through third-party human resources agencies.

PROPERTIES

Our head office is located at 59 Changfeng Street, Taiyuan, Shanxi, PRC. As of the Latest Practicable Date, we owned or occupied 71 real properties with an aggregate GFA of approximately 81,210.9 square meters; owned the land use right of one parcel of land with an aggregate area of approximately 842.8 square meters; and leased 158 properties with an aggregate GFA of approximately 156,362.1 square meters.

Owned Properties

Real Properties

As of the Latest Practicable Date, we owned or occupied 71 real properties with an aggregate GFA of approximately 81,210.9 square meters. Among these real properties:

1. For 45 real properties with an aggregate GFA of approximately 63,483.5 square meters (accounting for 78.2% of the aggregate GFA of our owned real properties), we had obtained the relevant building ownership certificates and the land use certificates, or the real property ownership certificates, for the land occupied by these properties through grant.

   As advised by King & Wood Mallesons, 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. For three real properties with GFA of approximately 1,746.3 square meters (accounting for 2.2% of the aggregate GFA of our owned real properties), we had obtained the relevant building ownership certificates, and obtained the land use right certificates through allocation. These real properties are currently idle.

   As advised by King & Wood Mallesons, our PRC legal advisor, (i) as we have obtained the building ownership certificates for these properties, there are no material legal obstacles for us to occupy or use these properties; (ii) for the land allocated to us on which these properties stand, we will be entitled to transfer, lease or mortgage such properties after we obtain the land use right certificates through grant. If these properties 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 these properties comprise only a small portion of our owned properties, King & Wood Mallesons is of the view that the title defects will have no material adverse effects on our business operations.

3. For 17 real properties with an aggregate GFA of approximately 4,396.8 square meters (accounting for 5.4% 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. Among these real properties, one with a GFA of approximately 604.4 square meters is leased to a third party, two with an aggregated GFA of approximately 2,284.2 square meters are used as our offices or outlets, and 14 with an aggregate GFA of approximately 1,508.2 square meters are used as our staff dormitories.

   As advised by King & Wood Mallesons, our PRC legal advisor, as we have obtained the relevant building ownership certificates, there are no material legal obstacles for us to occupy or use such properties. However, before obtaining the land use right certificates for the land on which such building were erected, we may be restricted from transferring, mortgaging or otherwise disposing of such properties. 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, King & Wood Mallesons is of the view that the title defects will have no material adverse effects on our business operations.

4. As of the Latest Practicable Date, we also occupied three real properties with an aggregate GFA of approximately 10,205.3 square meters (accounting for 12.6% of the aggregate GFA of our owned real properties), for which we had not yet obtained the relevant building ownership certificates. All three real properties are used as our outlets. We have obtained the real property ownership certificate for the land occupied by one of these properties, with GFA of approximately 2,903.5 square meters.

   As advised by King & Wood Mallesons, our PRC legal advisor, we may not legally occupy, use, transfer, lease, create a mortgage on or by other means dispose of such properties until we obtain the relevant building ownership certificates for these properties and land use certificates for the land occupied by such properties. In the event that we are required to relocate, we believe we will be able to find comparable properties as alternatives with full title certificates or legal leases 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, King & Wood Mallesons is of the view that the title defects will have no material adverse effects on our business operations.

5. Three of the real properties with an aggregate GFA of approximately 1,379.0 square meters (accounting for 1.7% of the aggregate GFA of our owned real properties) are subject to the government's acquisition due to an ongoing underground construction project in the relevant area. These properties were previously used as our outlets and offices. As of the Latest Practicable Date, we had entered into a Land Seizure, Compensation and Relocation Agreement (《徵收補償安置協議書》) with the local government where we will be paid a sum of RMB11.9 million as compensation for the loss of the three properties. Meanwhile, we are arranging for the affected outlets and offices' relocation into premises we recently found and leased as alternatives. Based on the above, King & Wood Mallesons, our PRC legal advisor, is of the view that the government's taking of these properties will have no material adverse effects on our business operations.

During the Track Record Period and as of the Latest Practicable Date, the defective legal titles of the above-mentioned properties did not have any material adverse effect on our business operations. The title defects were primarily due to historical issues, such as non-cooperation from the original property owners. We will continue to make efforts to obtain the 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 at relatively low cost, and such relocation will not have any material adverse effect on our financial condition or results of operations.

Undeveloped Land

As of the Latest Practicable Date, we owned the land use right of one parcel of land with an area of approximately 842.8 square meters through grant, for which we had received the land use right certificate. We may consider to sell this parcel of land when appropriate. This parcel of land has remained undeveloped for over two years and is currently categorized as idle land in accordance with the provisions of Disposal Measures on Idle Land (《閒置土地處置辦法》). As advised by King & Wood Mallesons, our PRC legal advisor, this parcel of land may be seized by the government, but such an event will not materially and adversely affect our business operations, considering (i) the value and size of the land as compared to our net assets and owned properties, and (ii) the fact that we do not use this land in our business operations.

Leased Properties

As of the Latest Practicable Date, we leased 158 properties with an aggregate GFA of approximately 156,362.1 square meters. Among these properties:

1. For 55 properties with an aggregate GFA of approximately 44,608.5 square meters, the lessors had obtained the relevant building ownership certificates or the consent letter from the owners holding the relevant building ownership certificates to authorize the lessors to lease or sublease the specific properties. As advised by King

& Wood Mallesons, our PRC legal advisor, these leases are legal and valid, except for three leases which recently expired. We are actively negotiating with the respective lessors to renew these three leases.

2. For 103 properties with an aggregate GFA of approximately 111,753.6 square meters, the lessors had not provided the relevant building ownership certificates. Among these properties, for 66 properties with an aggregate GFA of approximately 94,745.6 square meters, lessors had issued written undertakings stating that the lessors are entitled to lease such properties, and the lessors shall indemnify us if we suffer losses from the defective titles of such properties.

   As advised by King & Wood Mallesons, 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 at relatively low costs, and such relocation will not have a material adverse effect on our financial condition or results of operations.

3. As of the Latest Practicable Date, we also occupied one property with a GFA of approximately 220 square meters located within the Taiyuan Municipal Convenient Service Center for Residents. We were granted the right to occupy and use this property in 2016 and have since used it as a sub-branch specializing in providing medical-related financial services for the local residents, by virtue of our long-term partnership with the local government authorities in charge of medical-insurance related services.

As of the Latest Practicable Date, for our 158 leased properties, we had registered 52 leasing agreements with the relevant housing administrative authorities with an aggregate GFA of approximately 91,924.4 square meters. As advised by King & Wood Mallesons, 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 RMB1.06 million. During the Track Record Period, we had not received any administrative penalties for failure to register our leases. We believe the failure to complete lease registration will not have a material adverse effect on our financial condition or results of operations. Based on the above, King & Wood Mallesons is of the view that the title defects will have no material adverse effects on our business operations.

Property Valuation

As of December 31, 2018, 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, we had obtained all material licenses, approvals, permits and qualifications from relevant PRC authorities for our operations in China.

INTELLECTUAL PROPERTY RIGHTS

We conduct business under the brand name of "晉商銀行" and the logo of " " and some other brand names and logos. Our intellectual property rights mainly include trademarks and Internet domain names. As of the Latest Practicable Date, we held 52 registered trademarks and 18 domain names in the PRC as well as two registered trademarks in Hong Kong. With respect to details of our intellectual property rights, please see "Appendix VII – Statutory and General Information". We have 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 22 pending litigations where we have a claim to the assets involved with the amount of principal exceeding RMB10.0 million, and the aggregate amount of the claimed principal in such legal proceedings was approximately RMB1,678.1 million. Among these 22 cases, 20 involved enforcement claims we initiated to recover payments on our loans, one involved a dispute relating to enforcement dissent, and one involved a contract dispute with a third party, including (i) four cases each with a claim amount of principal exceeding RMB100.0 million, (ii) three case with a claim amount of principal ranging from RMB50.0 million to RMB100.0 million, and (iii) 15 cases each with a claim amount of principal below RMB50.0 million. As of the Latest Practicable Date, among these 22 cases, 11 were pending for judgment by court of first instance, two were pending for judgment by the appellate court, one was remanded to the court of first instance for retrial, one was pending service of judgment in our favor, and seven were at the enforcement stage pursuant to judgment in our favor. 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 towards our loans, please see "Risk Management – Credit Risk Management – Credit Risk Management for Corporate Loans" and "Risk Management – Credit Risk Management – Credit Risk Management for Personal Loans". As of the Latest Practicable Date, our provisions for the loans in the pending legal proceedings where we served as plaintiffs with a claim amount of principal exceeding RMB10.0 million amounted to RMB809.5 million. 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. Please also see "Risk Factors – Risks Relating to Our Business – We may be involved in legal and other disputes from time to time arising out of our business operations".

King & Wood Mallesons, our PRC legal advisor, is of the view that, as the total amount in dispute accounts for a small percentage of our total assets and net assets in our latest audited financial statement, and because we are the plaintiffs, these cases have no material impediment on our operations. Based on the above, our Directors are of the view that these litigations will not have 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 one pending litigation with a claim amount of principal exceeding RMB10.0 million (RMB927.6 million). None of our Directors or senior management was involved in the case. We set forth below details on this legal proceeding.

Litigation Against Us Brought by Bank X

In August 2017, Bank X brought a lawsuit against us in relation to a bill-related dispute before the High People's Court in the province where Bank X is located. Bank X claimed that it purchased 98 bank acceptance bills ("**2015 Case Bills**") from Bank Y on August 18, 2015 by entering into a bill repurchase agreement with Bank Y, under which Bank Y agreed to repurchase 2015 Case Bills from Bank X on October 19, 2015. Bank X then claimed that it subsequently passed 2015 Case Bills to us on October 19, 2015 with the expectation that we would make payment to Bank Y after we receive the bills, so that Bank Y would have sufficient funds to repurchase 2015 Case Bills from Bank X. Bank X further alleged that we failed to make payment to Bank Y after receiving 2015 Case Bills, nor did we return 2015 Case Bills to Bank X. Based on these allegations, Bank X asserted that we had no legitimate reason to hold or collect on 2015 Case Bills and that our doing so had violated its rights in relation to the same bills. Bank X demanded from us damages equal to the principal of 2015 Case Bills which amounted to RMB927.6 million, together with interest incurred since October 19, 2015, the maturity date of the relevant bills, as well as attorney fees and court costs. As of the Latest Practicable Date, court procedures for this case had not commenced.

We are of the view that Bank X's allegations have no merits. Different from Bank X's allegations, we purchased 2015 Case Bills after entering into a valid and binding bank acceptance bill transfer discount contract with Bank Z ("**Contract with Bank Z**") on October 19, 2015. This purchase was reviewed and approved by our Head of Financial Market Department (金融市場部) at the time, who was then the authorized approver for interbank transactions. Subsequently, on October 19, 2015 and in the following chronological order, (i) we received 2015 Case Bills at a hotel from an employee of Bank X, verified the bills' authenticity pursuant to requirements under the relevant laws and regulations governing such transactions, and confirmed that these bills were the very bills listed in Contract with Bank Z; (ii) we paid full price to Bank Z under Contract with Bank Z, as evidenced by a transfer certificate showing Bank Z as the sole recipient of our payment; and (iii) the employee of Bank X, after confirming that we had made full payment to Bank Z, allowed our employee to leave the hotel taking 2015 Case Bills with him. We received 2015 Case Bills from an employee of Bank X, instead of one from Bank Z, because the relevant bills were physically held by Bank X's employee at the time of the transaction.

We have not entered into any agreement or arrangement with Bank X or Bank Y in relation to 2015 Case Bills. Furthermore, neither Bank X nor Bank Y was the endorser on 2015 Case Bills. As advised by the legal advisor we engaged in this case with respect to the relevant PRC laws and regulations, we are of the view that there is no obligations for us, legal or contractual, to make payment to Bank Y or return 2015 Case Bills to Bank X.

We made a self-inspection submission ("**January 2017 Submission**") in January 2017 to the regulatory authorities pursuant to a regulatory investigation jointly initiated by the PBoC and the CBRC in relation to transactions involving 2015 Case Bills. Subsequent to our filing of January 2017 Submission and as of the Latest Practicable Date, we had not received further inquiry or penalty from PRC regulatory authorities in relation to transactions involving 2015 Case Bills, except that in May 2017, we received one administrative penalty issued by CBRC Shanxi Office for our employee's failure to strictly follow relevant handling procedures when we accepted 2015 Case Bills from the employee of Bank X, such as demanding and verifying identity documents of the counterparty or conducting the transaction at a proper business venue. We have made timely payment for this penalty.

As advised by the legal advisor we engaged in this case and based on the evidence currently available, we believe it is highly unlikely for us to receive unfavorable ruling in this case, primarily because, for the reasons listed below, we have not infringed Bank X's rights: (i) as stated in our January 2017 Submission, we purchased 2015 Case Bills based on Contract with Bank Z and we have not entered into any agreement or arrangement with Bank X or Bank Y in relation to 2015 Case Bills; (ii) we purchased 2015 Case Bills based on Contract with Bank Z, after paying the full price to Bank Z as stipulated under Contract with Bank Z, and undertook bill collection in accordance with relevant PRC laws and regulations. In addition, according to the relevant PRC laws and regulations, we are not under any obligations, legal or contractual, to make payment to Bank Y or return 2015 Case Bills to Bank X; and (iii) the fact that we received 2015 Case Bills from an employee of Bank X does not subject us to any obligations, legal or contractual, to make payment to Bank Y or return 2015 Case Bills to Bank X.

Our Directors are of the view that this dispute in relation to 2015 Case Bills is an isolated event. During the Track Record Period and up to the Latest Practicable Date, we had not been involved in any other litigation triggered by interbank bill-related disputes where we were alleged of infringing upon a counterparty's rights. Nevertheless, to prevent occurrence of similar incidents, we have enhanced our internal control procedures and risk management measures in relation to bill financing transactions, including improving our training, inspections and accountability measures that are applicable to the business. We also reinforced our centralized management system for document verification. Furthermore, in line with PRC laws and regulations issued in 2016 encouraging industry-wide digitalization of bill transactions, we have ceased the dealing of physical bills with face value over 3.0 million since January 1, 2017. Subsequently, since January 1, 2018, we have ceased the dealing of physical bills with face value over 1.0 million. For the year ended December 31, 2018, the transaction volume of electronic bills accounted for over 99.9% of the accumulated amount of promised payment specified in our bank acceptance bills. Unlike physical bills, our acceptance and handling of electronic bills are undertaken through a digital platform, which is subject to real-time supervision and instant tracking, therefore leaving a full and transparent record for every step of the transaction. Our Directors are of the view that the enhanced internal control measures above will assist the Bank to mitigate the risk of recurrence of similar disputes for reasons attributable to the Bank. Having considered the Directors' view as stated above and based on the due diligence work conducted by the Joint Sponsors, including (a) reviewing and discussing with the management of the Bank in relation to the Bank's internal policies and measures, (b) discussing with the Bank's internal control advisor on the relevant internal control systems and (c) reviewing the report of the Bank's internal control advisor, the Joint Sponsors concur with the Directors' view that the enhanced internal control measures above will assist the Bank to mitigate the risk of recurrence of similar disputes for reasons attributable to the Bank.

King & Wood Mallesons, our PRC legal advisor, is of the view that this case would not have a material adverse effect on our operations. Based on the above, our Directors are of the view that this litigation will not have any material adverse effect on our business, financial condition, results of operations or prospects.

Litigation is, however, 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 from time to time arising out of our business operations".

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.

These inspections and reviews have not identified 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 issues 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", "– Legal and Administrative Proceedings – Anti-money Laundering" and "– Legal and Administrative Proceedings – Employee Non-compliance", we have 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 January 2019, we obtained a regulatory opinion from our supervising authority, CBIRC Shanxi Office, stating that, from January 1, 2016 to September 30, 2018, we had (i) continuously improved our internal control system and mechanism, (ii) established and optimized our policies, guidelines and operational procedures in relation to various business segments, (iii) formulated a series of risk control policies, procedures and measures, and (iv) had not witnessed any serious misconduct in violation of the relevant laws and regulations or material incidents resulting from insufficient internal control. Based on the above, our Directors are of the view that, as of the Latest Practicable Date, we had established a comprehensive internal control and risk management system, which is sufficient and effective in all material respects.

Administrative Penalties

During the Track Record Period and up to the Latest Practicable Date, we had been subject to various administrative penalties imposed by the CBIRC, PBoC, SAIC, SAT and other regulatory authorities, generally in the form of fines. Among these penalties, there were ten incidents which each resulted in fines of RMB300.0 thousand or above, mainly including (i) penalties imposed, including warning issued against the management personnel in charge, for (a) failure to thoroughly examine underlying assets before SPV investment which resulted in inaccurate risk assessment and insufficient allowance provision, (b) insufficient supervision over the approval and post-disbursement monitoring of working capital loans, which led to the use of loan proceeds beyond the prescribed purpose of facilitating the borrower's day-to-day operations, and (c) collecting fees that had already been explicitly waived. Please also see "Directors, Supervisors and Senior Management – Senior Management – Zhang Yunfei". Following the incident, we made timely reports to the relevant regulatory authority and arranged additional training to enhance our employees' understanding of the laws and policies regarding credit risk management, operational risk management, and internal control. We also enhanced our supervision over our staff's compliance with the procedures for pre-investment due diligence investigation and post-disbursement use of proceeds, to prevent the occurrence of similar incidents in the future; (ii) penalties against a branch for one of its senior management members' misconduct in relation to the use of invoices and improper reimbursement of personal expenses in breach of relevant accounting rules and internal control policy. In March 2018, we discovered during routine self-inspection that our then vice president of our Linfen Branch had engaged in misconduct in relation to the use of invoices and improper reimbursement of personal expenses, through which, as subsequent investigations revealed, he made improper personal gains of RMB583.5 thousand. Following the incident, we made timely reports to the relevant regulatory authority, carried out bank-wide screening to detect similar employee misconduct, and arranged mandatory educational activities to enhance our staff's compliance awareness; (iii) penalties against a branch for inadequate pre-loan investigation on borrower and collateral, insufficient supervision over approval and use of loan proceeds to avoid misappropriation, and failure to verify the authenticity of trade background and invoices before issuing acceptance bills; (iv) penalties against a branch for offering guaranteed investment return and principal protection terms when selling non-principal protected wealth management products with floating yields; (v) penalties for failure to strictly implement rules relating to interbank businesses, such as verifying necessary due diligence documents, seeking approval from appropriate officers prior to proceeding with relevant transactions and properly managing concentration risks; (vi) penalties against a branch for insufficient due diligence work to verify authenticity of underlying transactions in conducting acceptance bills business; (vii) penalties against a branch for failure to properly mark requested information on key transaction documents, to request necessary due diligence files to verify the validity of certain pledges, and to formulate comprehensive internal guidelines covering relevant business operations; (viii) penalties against a branch for failure to strictly comply with relevant laws and regulations to ensure loan proceeds were transferred in full amount to the borrower's account; (ix) penalties against a branch for improperly accepting loan proceeds as guarantees for acceptance bills; and (x) penalties against a branch for failure to strictly implement pre-loan investigation and disbursement management measures in relation to use of loan proceeds, and insufficient due diligence work to verify the authenticity of underlying transactions in managing acceptance bill business.

These ten penalties resulted in an aggregate fine and improper gains confiscation of RMB3,913.8 thousand. Apart from these ten penalties, during the Track Record Period and as of the Latest Practicable Date, we received other administrative penalties each with fines of less than RMB300.0 thousand, causing an aggregated fine and improper gains confiscated of RMB2,017.5 thousand.

We had made timely payment for fines of all the above-mentioned administrative penalties. As these penalties, individually or in the aggregate, did not result in materially adverse outcome such as the suspension of our businesses or revocation of our business licenses or permits, and the fines imposed account for a negligible percentage of the net assets in our latest audited financial statement, King & Wood Mallesons, our PRC legal advisor, is of the view that these penalties have no material impediment on our operation.

We have taken and will continue to take the following major steps and measures to rectify the issues identified by the PRC regulatory authorities:

- regarding the issues with clear solutions, we have taken 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 systems, we have held the employees who violated the rules accountable and issued internal warnings and guidance;
- 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 PRC regulatory authorities to reduce similar operational risks and hidden potential management obstacles; and
- to prevent such 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 issues identified by the PRC regulatory authorities:

- regarding our non-compliance with interbank business regulations, we have enhanced our credit review and approval procedures and post-disbursement management in the sector, and strengthened our training and supervision mechanism to prevent occurrence of similar incidents;
- regarding the non-compliance issues within our acceptance bills businesses, we have discontinued the transactions identified as non-compliant, reinforced our internal procedures and accountability measures applicable to the business, and reinforced our centralized management system for credit approval and document verification;
- regarding our previously inadequate pre-loan and post-disbursement management mechanism, we have strengthened our unified credit extension system and accountability mechanism to hold each account manager to high due-diligence standards, and increased our supervision over the borrower's use of proceeds.

Through the above remedial measures, we believe that we have taken appropriate actions to rectify the identified deficiencies. Our Directors believe that the above administrative penalties did not, individually or in the aggregate, have a material adverse effect on our financial position or results of operations.

We have engaged an independent internal control advisor to report factual findings on the above incidents of administrative penalties and the relevant remedial measures taken by us, based on the scope of work and procedures the parties agreed on. Based on the above remedial measures and the findings of the internal control advisor, we believe that we have taken appropriate actions to rectify the identified deficiencies. We have made improvements in matters related to our business operation, internal control and risk management, including enhancing our control over credit risk management, the loan extension process, and the financial markets business.

Taking into account the factors that (i) there being no material adverse impact of our non-compliance incidents on our business, financial condition or results of operations, and (ii) the internal control measures we have adopted, and (iii) the internal control advisor's confirmation that we have taken remedial measures to rectify the internal control deficiencies it identified, with no further comments regarding our remedial measures noted during the internal control advisor's follow-up visit our Directors consider that our internal control measures are adequate and effective in all material respects.

Findings of Regulatory Examinations

Routine and *ad hoc* inspections carried out by the PRC regulatory authorities have identified certain deficiencies in relation to our business operations, risk management, corporate governance and internal controls, the details of which are set forth below. Following their inspections, 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 material 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.

Unlike administrative penalties, inspection reports do not impose penalties such as fines or suspension of business licenses. We believe that the findings and recommendations summarized below have no material adverse impact on our business, financial condition or results of operations, but instead have enabled us to better diagnose the deficiencies in our operations and to improve our risk management and internal control measures accordingly.

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	We enhanced our internal guidelines to control concentration risk, including diversifying our portfolio across low-risk, policy-oriented sectors like urban renewal projects, as well as closely monitoring our credit exposure in real estate development and industries with excess production capacity.	November 27, 2018
• 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 most recent status of the ultimate borrowers	We rectified the classification of the assets identified, reinforced our implementation of and supervision over loan classification, and arranged additional training to enhance our employees' understanding of the classification system.	April 23, 2018
• Insufficient pre-loan and pre-investment investigation, including (i) failure to verify the authenticity of trade background and underlying documents, (ii) failure to conduct comprehensive review on ultimate borrowers, such as examining applications from the same customer under the unified credit extension system, (iii) failure to restrict loan extension to high-risk customers or those who had incurred NPL in the past, (iv) inadequate investigation on certain guarantors, and (v) failure to thoroughly examine underlying assets before making certain investments	We expanded our investigative measures designed for new customers and their credit applications, strengthened our unified credit extension management and reinforced its strict implementation, enhanced our accountability mechanism to hold each account manager to high due-diligence standards, supplemented the supporting documents previously omitted from the record, and intensified our screening of guarantors to reduce potential credit risks.	November 27, 2018
• Inadequate allowance made for impaired assets and certain investments, due to inaccurate categorization or untimely re-categorization of the assets based on their quality	We focused on increasing allowance for the impaired assets identified and enhanced our supervision over implementation of internal procedures relating to allowance provision.	August 29, 2018
• NPL management system subject to improvement to promptly address noticeable growth of NPL balance, such as by utilizing various channels and flexible asset restructuring tools to accelerate the disposal of NPLs	We optimized our internal procedures to monitor our NPL status and to oversee the transferal or disposals of NPLs, including through establishing a specialized NPL task force under the Risk Management Department, conducting weekly meetings on NPL disposal, and enhancing our accountability mechanism to control NPL increment.	August 29, 2018

Major issues and main recommendations	Our primary remedial measures	Latest remedial report submission date
• Insufficient post-disbursement management, including (i) failure to conduct periodic inspections on the borrowers' latest financial status to monitor credit risks in a timely manner, and (ii) lack of supervision over use of proceeds to ensure that the funds disbursed are utilized for the designated purposes	We held our customer managers responsible for each account's post-disbursement management and enhanced relevant training and internal guidelines. Our Risk Management Department conducted quarterly inspections on post-disbursement procedures and provided relevant feedback to our staff after such inspections.	November 27, 2018
• Risk management over off-balance sheet business and SPV investments subject to improvement, so as to address the noticeable increase of certain off-balance sheet assets and improve the overall quality of SPV investment	We strictly monitored and controlled credit risks arising from our bank acceptance bills business and agency services and optimized our selection of SPV projects in line with the government's policy guidelines.	April 23, 2018
Operational risk management		
• Failure to fully comply with the government's macroeconomic guidelines, such as improper extension of credits to certain real estate developers, and insufficient credit support to micro and small enterprises	We refined our internal guidelines governing credit extension to real estate development projects in line with the government's policy. We enhanced our support to micro and small enterprises by streamlining the credit review and approval process for their loan applications and designing credit products tailored to their needs.	August 29, 2018
• Inadequate prevention mechanism for non-compliance incidents, including inconsistent enforcement of the staff rotation and mandatory leaves system, insufficient supervision over key positions and frontline staff, failure to fully comply with regulations and internal policies governing employee compensation and deferred payments, inadequate fees management such as improperly charging clients with fees that should be borne by the Bank, and untimely or incomplete rectification of certain non-compliant incidents	We strengthened our employee training and disciplinary measures, strictly implemented rotation of positions and mandatory leaves, increased inspection efforts on branches and departments, adjusted our compensation and deferred payments scheme in compliance with the relevant rules, and enhanced our monitoring over fee collection and disclosure procedures. We also accelerated our compliance efforts and increased internal penalties for delayed rectification to ensure that regulatory opinions and recommendations were promptly followed.	November 12, 2018
Liquidity risk management		
• Non-compliance with, or noticeable fluctuations in, certain liquidity regulatory indicators	We enhanced our capacity to mitigate liquidity risks, including optimizing the aging structure of bank deposits, and closely monitored key indicators in relation to our liquidity status. We also arranged additional training to raise our employees' liquidity risk management awareness.	April 23, 2018
• Design and implementation of liquidity risk monitoring system and stress tests subject to improvement, so as to maintain a stable and diversified assets and liabilities structure and to reduce maturity mismatch	We engaged third-party software developers to upgrade our liquidity risk monitoring and stress tests system, studied the advanced stress test models adopted by other commercial banks, and strengthened our recruitment and training of liquidity control experts and personnel.	April 23, 2018
• Concentration of deposits in certain major accounts and relatively 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 reduce our reliance on major deposit accounts. We also established a daily alert system to detect large inflows and withdrawals of deposits and to keep our deposit deviation under control.	April 23, 2018

Major issues and main recommendations	Our primary remedial measures	Latest remedial report submission date
Information technology risk management		
• IT risk management system subject to improvement, particularly in relation to (i) over-reliance on subcontractors when developing our IT system, (ii) lack of capacity in providing support to key business activities such as product innovation, pricing, liquidity control, data accuracy, and capital management, and (iii) disaster recovery system in need of further upgrade and expansion	We actively engaged third-party IT companies to jointly and efficiently develop programs and digital platforms tailored to our specific business needs. Meanwhile, we continuously strengthened and expanded our internal IT team to reduce our potential reliance on subcontractors and to enhance its compatibility with our business development. We also arranged additional training and adjusted our performance assessment indicators to further motivate our IT staff.	April 23, 2018
Interbank business		
• 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 exposure, (ii) maintain a comprehensive list of counterparties, (iii) conduct on-site inspections of physical bills, and (iv) strictly implement internal review and inspection procedures while conducting certain transactions	We adopted a series of rectification measures including (i) enhancing our management of the list of counterparties, (ii) further implementing unified credit extension for interbank business, (iii) optimizing the structure of our interbank assets and liabilities to reduce maturity mismatch, and (iv) strictly implementing existing internal procedures, while making necessary adjustments to further standardize interbank transactions	August 29, 2018
• Inadequate credit risk control and disclosure mechanism, including failure to (i) fully review counterparties' backgrounds and relevant supporting documents, (ii) strictly implement the classification and accounting system for all interbank investments, (iii) refrain from credit extension to restricted industries and to certain counterparties beyond credit limits, (iv) make sufficient allowance for impaired non-credit assets, and (v) carefully verify the legitimacy of the source of repayments and lack of supervision over the use of proceeds	We enhanced our interbank credit risk management by extending our loan business's standardized five-level classification, credit review and approval measures, and post-disbursement management guidelines to the interbank business, and optimized their implementation through additional training and enhanced supervision. We also commenced quarterly post-investment inspections on the underlying assets and our counterparties' financial status, and enhanced our supervision over the borrowers' source of repayment and use of proceeds.	April 23, 2018
• Inadequate compliance with standard procedures, such as unauthorized openings of certain interbank accounts prior to obtaining approval from the head office or counterparties, transferring credit assets without obtaining the borrowers and guarantors' consent, flawed execution of certain contracts entered with counterparties, and failure to implement internal approval procedures for certain related party transactions	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.	January 3, 2018

Major issues and main recommendations	Our primary remedial measures	Latest remedial report submission date
Bank bills business		
• Inadequate formulation and implementation of internal procedures, including failure to verify authenticity of trade background, and to properly demand, examine, and record underlying documents, such as invoices, by strictly following relevant on-site handling procedures	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 disciplinary measures to address employee misconduct.	July 2, 2018
Wealth management business		
• 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 use of proceeds	We ceased certain non-compliant transactions to avoid reoccurrence of similar incidents. We also enhanced our concentration risk control measures and investigation of underlying investments to improve our overall risk management of the wealth management business.	April 23, 2018
• Incomplete internal control mechanism, such as failure to timely disclose fund-raising progress, inadequate or inaccurate product description in marketing materials, inconsistent financial records kept by different departments, and failure to strictly follow standardized marketing procedures	We improved our internal control measures in the sector, including (i) increasing our monitoring over the disclosure of product information, (ii) standardizing quality-control and consistency check for operational statements, and (iii) intensifying our training on the proper marketing of wealth management products to improve the quality of our services.	November 27, 2018
Corporate governance and internal control		
• Failure to strictly enforce corporate governance and internal control measures, such as (i) delayed appointments of certain directors, supervisors and other management personnel, (ii) relatively low percentage of shareholders from the private sector, (iii) insufficient number of audit personnel and (iv) inadequate governance framework and internal control system within the Qingxu Village and Township Bank	We expedited the filling of management vacancies in compliance with the relevant rules and actively sought to introduce new investors, including strategic investors, to diversify our shareholder base. We also hired additional staff to strengthen our internal audit department and promptly rectified the governance issues within our Qingxu Village and Township Bank.	November 27, 2018
Capital Management		
• Capital management system subject to improvement, facing issues such as (i) delay in capital replenishment, (ii) inadequate monitoring over capital adequacy, and (iii) insufficient internal policies and procedures relating to internal auditing, file management, and the classification of assets based on their credit risks	We accelerated the formulation of internal policies relating to capital measurement, upgraded and enhanced our capital stress tests	September 30, 2016

During the Track Record Period, 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 inspection reports issued by the relevant local offices of the CBIRC, 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 policy and procedures in identified areas, such as insufficient consumer protection measures, untimely submission of periodic and self-inspection reports to the regulatory authorities, and incomplete credit inquiry mechanism	We formulated new internal rules to (i) enhance our consumer protection mechanism, (ii) standardize our report preparation and submission procedures, (iii) improve our management over the credit inquiry system.	August 29, 2018
• Interbank credit risk and operational risk management subject to improvement, such as inadequate enforcement of the loan classification system, and improperly promising guaranteed investment return when selling non-principal protected products	We strengthened the training and inspections on our staff in the interbank business to improve their understanding of the classification system, promptly ceased the non-compliant transactions identified, and refined our internal policies governing the interbank business.	December 9, 2016
• IT system lacking capacity in providing support to certain sectors, such as interbank business	We emphasized the importance of IT system upgrade and increased our efforts in developing new programs compatible with our evolving business model.	December 9, 2016
• Insufficient due diligence investigation and account management, such as failure to fully examine and verify VAT invoices and to retain key underlying documents, untimely update of account information, and inaccurate categorization of certain customers and accounts	We took immediate action to supplement the records identified as incomplete and to enhance the effectiveness of our account management system.	November 5, 2018

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. As of the Latest Practicable Date, we had not received any objections from the relevant local branches of PBoC in respect of our implementation of their recommendations. Based on the aforesaid inspection reports issued by the local branches of the PBoC, 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.

Department of Audit of Shanxi Province

The Department of Audit of Shanxi Province conducts periodic inspections on our operation and issues 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 credit risk management, including failure to (i) conduct comprehensive review on clients' background, (ii) accurately assess and categorize certain loans based on their quality, (iii) closely track and supervise use of proceeds, (iv) keep certain credit concentration ratios below regulatory limits, (v) adopt differentiated and more stringent credit policies for certain highly-regulated industries, and (vi) make adequate allowance for certain impaired assets based on prudent assessment of their quality	We improved our pre-loan investigation and post-disbursement monitoring procedures, and strived to enhance our loan classification system's ability to make timely adjustment based on the latest conditions of relevant borrowers, and strengthened our employee training on this matter. We also reinforced our credit concentration control mechanism and promptly reduced our credit extension to the customers identified, and standardized our internal policy and procedures governing allowance for impaired assets.	June 18, 2019
• Inadequate risk management of the discounted bills and acceptance bills business, including lack of due diligence conducted on customers and the underlying transactions, and failure to request or authenticate the invoices supplied for examination	We discontinued the bills transactions which violated the prudent operation principle and optimized internal policies to strengthen our inspections on the bills business.	March 20, 2018
• Insufficient management over interbank business, including failure to (i) fully examine the trade background of certain transactions and strictly adhere to the list of counterparties and prescribed credit limits, (ii) withhold credit extension to restricted industries, and (iii) formulate internal policies to adequately monitor and control credit risks in the sector	We enhanced our supervision over the transactions identified to ensure their timely resolution and improved our internal policies and risk management framework, including designating the Financial Market Department as the department overseeing our interbank business.	June 18, 2019

Major issues and main recommendations	Our primary remedial measures	Latest remedial report submission date
• Insufficient enforcement of certain procedures and accountability mechanism for NPL disposals, such as failures to (i) obtain accurate asset valuation reports from qualified independent appraisers, (ii) comply with relevant procedures when engaging a third-party NPL disposal company and (iii) realize maximum value of certain assets disposed, as well as failure to initiate rigorous disciplinary actions against certain employees responsible for the deficiencies identified	We enhanced our management over NPL valuation, ceased non-compliant employment of the NPL disposal company identified, and optimized our internal measures to (i) increase the disposal value of our assets, (ii) ensure timely collection of proceeds, and (iii) improve our employee accountability mechanism in relation to NPL disposal.	June 18, 2019
• Failure to correctly record, measure and recognize certain accounting items, including value of real properties, fee and commission income in relation to debt securities distribution and investment returns related to funds.	We timely rectified the inaccurate accounting treatment identified and enhanced employee training on professional knowledge in relation to accounting treatment to ensure that they could measure, record and recognize accounting items accurately, and we strengthened strict implementation of relevant rules and policies to improve the accuracy of our accounting treatment.	June 18, 2019

As of the Latest Practicable Date, we had not received any objections from the Department of Audit of Shanxi Office in respect of our implementation of its recommendations. Based on the aforesaid opinions, 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.

Compliance with Core Indicators

We are required to comply with various ratios set out in the Core Indicators (Provisional) of the CBIRC, please see "Supervision and Regulation – Loan Classification, Allowances and Write-offs – Other Operational and Risk Management Ratios". During the Track Record Period and up to the Latest Practicable Date, the Bank failed to meet certain requirements under the Core Indicators (Provisional) but had not been subject to any administrative penalties as a result.

As of December 31, 2016, 2017 and 2018, the Bank's return on equity was 10.98%, 10.16% and 8.54%, respectively, which failed to meet the requirement of 11% under Core Indicators (Provisional). The Bank's return on equity as of December 31, 2016 was 10.98%, falling below the minimum requirement of 11%, primarily due to a decrease in our net interest income in 2016 as a result of the following: (i) along with the deepening of interest rate liberalization in 2015 and the intensified pricing competition in the PRC banking industry, our net interest spread narrowed and profitability decreased in 2016; (ii) in response to the regulatory policies in 2016 which encouraged banks to reduce financing cost for enterprises to support real economy and supply-chain structural reform, we adjusted and reduced interest rates for loans granted to certain enterprises; and (iii) although the economy of Shanxi Province began to rebound in the second half of 2016, it still continued its previous development trend in the first half of 2016 and the signs of economic recovery were not relatively obvious until the end of 2016, so we arranged our supply of credit cautiously in line with the principle of prudence and the increase of loans granted did not meet our expectation in 2016, which together with the decreased interest rates resulted in a decrease in our income from loan business in 2016.

The declines in the Bank's return on equity in 2017 and 2018 were primarily due to its receipt of cash injections amounting to RMB4,190 million and RMB914 million in 2017 and 2018, respectively, pursuant to a capital contribution plan approved by CBRC Shanxi Office in 2017. For more details, please see "Our History and Development – Our History – Changes in the Registered Capital of our Bank". These cash injections led to a significant increase in the Bank's equity, thereby diluting its return on equity. Had the Bank not received these cash injections, its return on equity as of December 31, 2017 and 2018 would have been 12.28% and 12.18%, respectively, meeting the requirements of Core Indicators (Provisional).

As advised by King & Wood Mallesons, our PRC legal advisor, the Core Indicators (Provisional) provides no penalties in respect of the failure to meet the return on equity requirement. In the future, we will seek to meet the Core Indicators (Provisional)'s requirement of 11% for the return on equity through the following measures: (i) actively adjusting our liability structure to lower the average cost while strengthening risk management and maintaining stable operation; (ii) increasing our marketing efforts to take more deposits at a reasonable cost so as to allocate more funds to loans and other interest-earning assets for getting more income; (iii) expanding channels for generating fee and commission income by enhancing our product innovation and improving the quality of our services so that we can reduce our reliance on interest income and ease the pressure of narrowing interest margins resulting from interest rate liberalization; and (iv) further expanding our income sources and boosting profitability by taking various measures, including developing new series of products that are tailored to the needs of different customer groups, improving the user experience for our existing products, strengthening our professional capabilities, continuously expanding our customer base and further enhancing our brand awareness and reputation.

As of December 31, 2017, the Bank's core liabilities ratio was 59.32%, falling below the Core Indicators (Provisional)'s requirement of 60%. This failure to meet the core liabilities ratio requirement was primarily due to low growth rate of core liabilities compared to the growth of our gross liabilities. As advised by King & Wood Mallesons, our PRC legal advisor, Core Indicators (Provisional) provides no penalties in respect of any failure to meet the core liabilities ratio. Pursuant to the relevant laws and regulations, beginning on July 1, 2018, core liabilities ratio is no longer treated as a regulatory indicator. Nevertheless, to improve its core liabilities ratio and better manage liquidity risks, the Bank has been attracting time deposits from customers through marketing efforts and monitoring its interbank liabilities. As a result, as of December 31, 2018, the Bank's core liabilities ratio increased to 60.42%, which met the core liabilities ratio requirement under the Core Indicators (Provisional).

Anti-money Laundering

No material abnormal money laundering incidents had been identified 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 – Legal and Compliance Risk Management – Anti-money Laundering".

Employee Non-compliance

Our business is subject to inherent risks including fraud or other misconduct committed by our employees, customers or other third parties. We cannot assure you that our internal control policies and procedures are always sufficient to detect or prevent all incidents of fraud or misconduct involving our employees, customers or other third parties. Please see the section headed "Risk Factors – Risks Relating to Our Business – 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".

During the Track Record Period and up to the Latest Practicable Date, we had, from time to time, detected misconduct and negligent acts committed by our employees, including misconduct in relation to the use of invoices and improper reimbursement of personal expenses, failure to thoroughly examine underlying assets before SPV investment, and inadequate implementation of our credit risk management policy and procedures. For more details, please see "– Legal and Administrative Proceedings – Regulatory Inspections and Proceedings – Administrative Penalties".

We disclose below material incidents involving misconduct of our employees, based on the seniority of the employees involved and the nature of the incidents. In each of these incidents, we have adopted rectification measures to address the operational or internal control-related deficiencies exposed by their misconduct. We believe that the financial losses and other adverse consequences of these incidents will not have, individually or in the aggregate, material adverse effect on our business, financial condition or results of operations. We will continue to focus on improving and strengthening our internal control and risk management functions with the goal of preventing similar incidents from occurring in the future. For more information regarding our risk management and internal control initiatives, please see "Risk Management".

SHANGGUAN Yongqing Incident

Our former chairwoman, Ms. SHANGGUAN Yongqing, left our Bank to become the chairwoman of Shanxi Guoxin Investment Group Co., Ltd. in July 2014. In June 2016, criminal investigation was commenced against Ms. Shangguan for her suspected violations of relevant laws and regulations, including embezzlement. Ms. Shangguan was subsequently discharged from public employment. As of the Latest Practicable Date, the criminal investigation against Ms. Shangguan was still in process and the relevant judicial authorities had not published detailed information regarding this incident.

As of the Latest Practicable Date, none of our Directors or senior management had been involved in the above-mentioned incident, or was subject to any litigation or investigation in relation to the incident. As of the Latest Practicable Date, our Bank had not been subject to any litigation or penalty in relation to this incident. Based on our best knowledge, this case involves Ms. Shangguan's personal misconduct.

After the occurrence of this case, we have reviewed key procedures that might be vulnerable to undue influence from Directors or senior management team. Accordingly, we have adopted the following measures and checks and balances procedures to enhance supervision on the duty performance of Directors and senior management:

- Heightening and delineating the selection criteria for our management personnel, including conducting a more exhaustive background check on candidates and, in particular, on those who have any non-compliance record or who share any personal relationship with our existing management personnel. For instance, we standardized the voting procedures for our personnel selection process and reinforced our recusal policies;

- Further optimizing our decision-making process in relation to key business proposals and highlighting the importance of open discussion and democratic decision-making to reduce the potential negative impact a single officer's improper decision or conduct could bring to our operations;

- Elucidating the scope and focus of our internal control policies and mechanism, including increasing the number of personnel in charge of such inspection and supervision. We have also formulated detailed internal policies to establish a bottom-up, bank-wide supervision mechanism for the relevant officers. We also clarified our internal policies governing regular and *ad hoc* disciplinary inspections, enumerating the matters subject to inspection, reinforcing our accountability mechanism, and promoting bank-wide compliance and legal awareness.

LI Jianqiang Incident

In September 2018, our former vice-president in charge of information technology and internet finance, Mr. LI Jianqiang, was subject to an investigation initiated by Shanxi Province's Discipline Inspection and Supervision Commission (山西省紀委監委) for suspected violation of relevant laws and regulations. We made timely report to the relevant PRC banking regulatory authorities upon noticing this incident. Mr. Li was discharged from public employment in December 2018 and formally removed as our vice president pursuant to approval at a board meeting held in January 2019.

On March 29, 2019, a criminal trial against Mr. Li was commenced at the Intermediate People's Court of Jincheng City in Shanxi Province. Based on the public information presently available, Mr. Li was accused of (i) taking advantage of his position during his term of office from 2002 to 2017, including providing benefits to others through personnel arrangement, loan approval, and facilitating their participation in construction projects, where the total amount involved was estimated to be RMB20.1 million; and (ii) performing bribing in July 2007 with a set of commemorative stamps valued at RMB1.1 million which he previously accepted as bribes from others. As of the Latest Practicable Date, first instance judgment in this case had not been entered and we had not received further details regarding this trial.

As of the Latest Practicable Date, none of our Directors or senior management had been involved in the above-mentioned incident, or was subject to any litigation or investigation in relation to the incident. As of the Latest Practicable Date, our Bank had not been subject to any litigation or penalty in relation to this incident. Based on our best knowledge, this case involves Mr. Li's personal misconduct. Mr. Li first began his employment at our Bank in July 2007, prior to the Bank's completion of restructuring and name change from "Taiyuan City Commercial Bank Co., Ltd. (太原市商業銀行股份有限公司)", before which he held various positions at another financial institution. From July 2007 to February 2009, Mr. Li was the president of Taiyuan City Commercial Bank Co., Ltd. According to Taiyuan City Commercial Bank Co., Ltd.'s loan review and approval policy applicable at the time, the president was not permitted to serve as a member of the credit review committee, but only had a veto right on loan applications already approved by the credit review committee. Mr. Li had not been in charge of or held any position within the Bank's Credit Review Committee or Credit Review Department, or been appointed an authorized approver for loans, since he became the Bank's vice president in February 2009.

In light of the allegations against Mr. Li, we have taken a series of measures to enhance the effectiveness of our internal control system:

- For our loan business, we scrutinized the credit review and approval procedures and conducted thorough operational-risk assessments within the sector. We also began to implement a "list-based" customer management system for certain types of loans, where new applicants not previously on the customer list must obtain the joint approval from our risk management department and credit review department before their loans can be granted, thereby preventing the relevant management personnel's abuse of credit review and approval authority;

- To enhance our supervision over construction projects within the Bank, we organized bank-wide training on the operation, management and monitoring measures relating to our centralized procurement system. We endeavor to combat employees' misconduct during their participation in our construction projects by strictly enforcing our supplier admission and selection procedures;

- We also adjusted the assessment criteria for our senior management to underscore the importance of their compliance and risk management performance among their other responsibilities. We have further improved internal rules and implementation measures in relation to the promotion, transfer and evaluation of our employees, including the "Jinshang Bank Employee Transfer Management Measures" (「晉商銀行員工調動管理辦法」) issued in December 2018. Under the new rules, our employees' transfer is subject to multiple layers of review and approval conducted by, and checks and balances among, the business departments sending or accepting the relevant employees, human resources department and senior management team members.

Furthermore, we have taken the following measures to ensure strict implementation of proper supervision on our employees, particularly management team members, so that we could promote the corporate culture of valuing honest life and fighting effectively against corruption to prevent occurrence of similar incidents in the future:

- Raising our employees' awareness of the relevant laws, regulations and professional ethics through placing heightened emphasis on the strict implementation of our internal policies, including by (i) hosting bank-wide training and conferences and (ii) engaging in routine consultation with key management personnel, and adopting other initiatives themed at warning and educating our employees in light of the non-compliant incidents;

- Strengthening the mutual-supervision mechanism among our officers, as well as the supervision channels available for our employees to monitor their supervisors' day-to-day professional conduct;

- Reinforcing our risk management culture on the reporting of and supervision on employee misconduct and increasing our promotion of the relevant internal measures. Specifically, we have established a "Jinshang Clean Administration" WeChat official account which facilitates the submission of reports directly to the discipline departments at our head office and the branches, while providing a platform for the discipline officers to respond to such reports in a simplified and timely manner. This official account also accepts petitions from the public in relation to, among other things, suspected employee misconduct in violation of the laws and regulations governing credit extension.

We have engaged an independent internal control advisor to review our internal control environment, including our internal procedures and training in relation to the identification, reporting and prevention of employee non-compliance conduct. We have taken rectification measures to better detect, control and prevent employee non-compliance incidents considering various factors, including the review results from the independent internal control advisor. Taking into account the factors that (i) there being no material adverse impact from employees' non-compliance incidents on our business, financial condition or results of operations, (ii) the internal control measures we have adopted, and (iii) the internal control advisor has reviewed the relevant policies and procedures and carried out sample tests with no deficiencies noted during the review period, our Directors consider that our internal control measures are adequate and effective in all material respects.

We believe we have taken the appropriate steps to prevent the occurrence of similar incidents through the measures described above. As of the Latest Practicable Date, we had not received from the relevant regulatory authorities any objections toward these measures or requests for us to take further remedial measures. We believe that these two incidents, individually or combined, did not and will not result in any material and adverse impact on our business, financial condition or results of operations. Our business witnessed substantial growth and steady development during the Track Record Period and had not been materially and adversely affected by these two incidents. Ms. Shangguan was succeeded by our current chairman Mr. Yan Junsheng upon her departure from our Bank, and Mr. Li's responsibilities were taken over by vice president Mr. Gao Jiliang shortly after investigation against him was initiated. For more information on the continual growth of our business in recent years and on our current leadership, please see "Business" and "Directors, Supervisors and Senior Management".

Save as the incidents disclosed above, none of our Directors or senior management had been involved in any non-compliant incidents that may have a material and adverse impact on our business, financial condition or results of operations.

OVERVIEW

The primary risks in relation to our operations include credit risk, market risk, liquidity risk, operational risk, information technology risk, reputational risk and strategic 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 establishing and maintaining a vertical, independent and comprehensive risk management system to attain effective risk control and steady business growth.

To achieve the above-mentioned objectives, we have implemented the following risk management principles.

- Comprehensiveness (全面性). Our risk management system must encompass every department, employee, business line, internal procedure and all types of risks.

- Independence (獨立性). Our Board of Directors, Board of Supervisors and senior management exercise their respective duties independently through distinct reporting channels and a strict authorization mechanism.

- Compatibility (匹配性). Our risk management system must be compatible with the scale, nature and complexity of our businesses and integrated operations. Our risk management policies and procedures must be compatible with our overall development strategy, capital level and financial goals.

- Criticality (重要性). In response to critical changes in our business model, procedures and products, we enhance our monitoring, evaluation and management of the relevant risks and adjust our review and approval procedures accordingly.

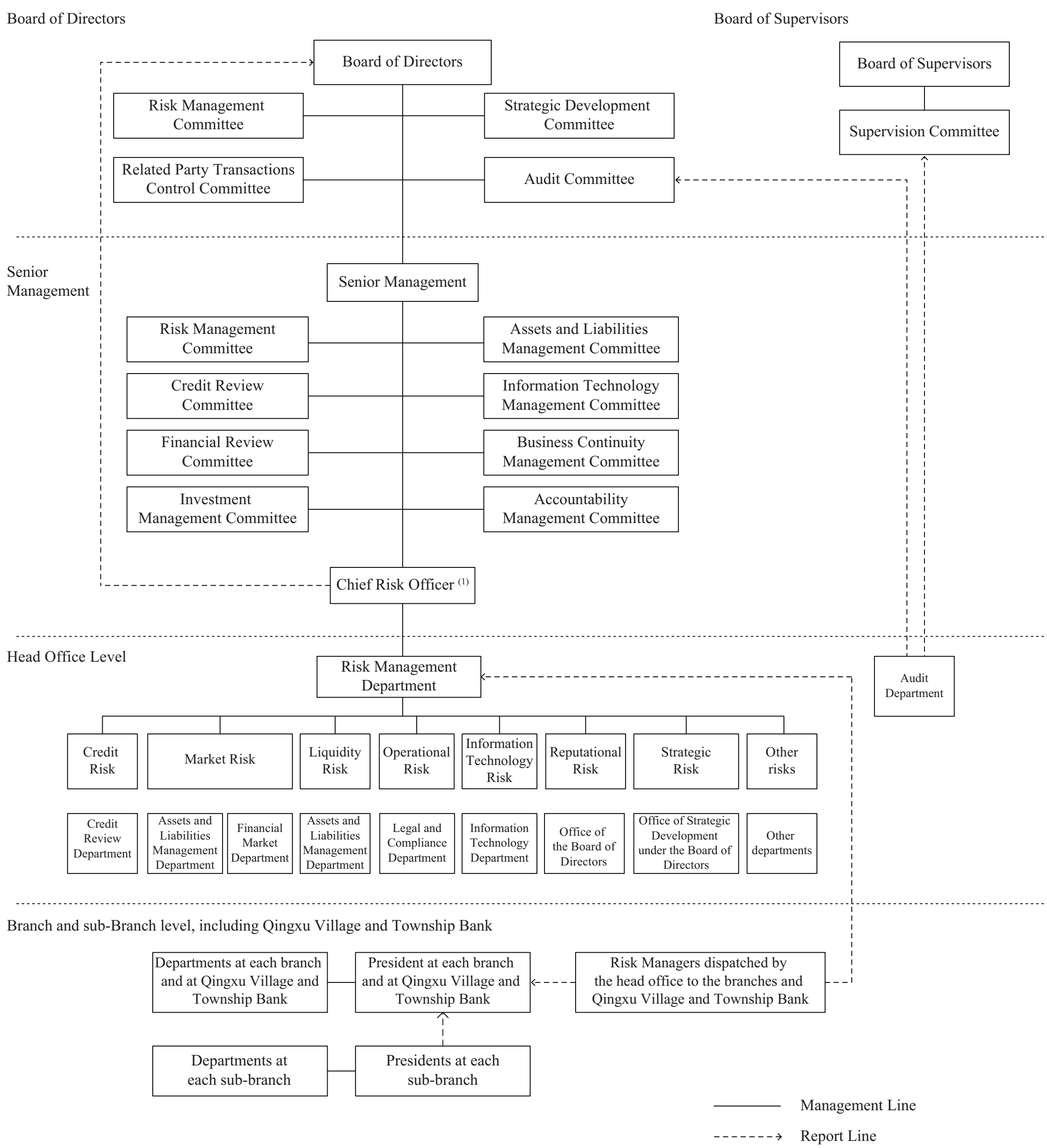
Risk Management Structures

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 guidance, support and coordination of our risk management system; and (iii) various departments in our head office, branches and sub-branches that are in charge of daily risk management work. 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.

RISK MANAGEMENT FRAMEWORK

We have established a comprehensive bank-wide risk management framework. Our top-down risk management model divides the risk management responsibilities by hierarchy and clearly defines the roles of each department, including the Board of Directors and its special committees, the Board of Supervisors and its supervision committee, the senior management and its special committees, as well as the Risk Management Department and various other departments carrying risk management responsibilities at our head office. We have established clear and specific reporting and communication procedures to ensure efficient and effective coordination among different departments in addressing various risks.

The following chart illustrates our organizational structure for risk management as of the Latest Practicable Date.



Note:

(1) As of the Latest Practicable Date, our Chief Risk Officer, Mr. ZHANG Yunfei (張雲飛) took charge of our overall risk management. For details on Mr. Zhang's experience and qualifications, please see "Directors, Supervisors and Senior Management – Senior Management".

Board of Directors and its Special Committees

The ultimate responsibility for risk management rests with our Board of Directors. The Board of Directors' responsibilities include (i) establishing and maintaining a sound and effective risk management system; (ii) evaluating and approving bank-wide risk management strategy, policy and procedures, and ensuring that the senior management adopts necessary risk management measures; and (iii) monitoring and assessing the comprehensiveness and effectiveness of our risk management system.

Our Board of Directors performs its risk management duties through the Risk Management Committee, the Audit Committee, the Related Party Transactions Control Committee and the Strategic Development Committee, with support from management teams at our head office, branches and sub-branches.

Risk Management Committee (風險管理委員會)

Our Risk Management Committee is primarily responsible for (i) reviewing our principles, strategies and overall policy framework in relation to risk management; (ii) overseeing and evaluating our risk management organizational framework and the relevant procedures to ensure the system's effective functioning; (iii) supervising and assessing our senior management team's implementation of the various risk management measures; (iv) reviewing our risk management guidelines and proposing timely adjustments to the guidelines; (v) monitoring and evaluating our risk management implementation status and our risk tolerance level; (vi) reviewing and commenting on important proposals calling for the Board of Directors' approval, such as those involving substantial investments, disposals of key assets and extension of significant guarantees, (vii) evaluating and supervising the implementation of decision-making procedures in relation to risk investment and asset disposal, (viii) evaluating and approving internal procedures governing the granting of credit review and approval authority to our senior management and other personnel, (ix) reviewing periodic risk management reports provided by the senior management team, including reports directly from the Chief Risk Officer.

The Risk Management Committee currently consists of five members and is chaired by Mr. SAI Zhiyi (賽志毅).

Audit Committee (審計委員會)

Our Audit Committee is primarily responsible for (i) inspecting our compliance with the current laws and regulations, as well as our financial soundness and compliance with the relevant accounting standards and financial reporting procedures; (ii) monitoring our internal control system, particularly with respect to our core business segments, to ensure that our risk management measures are rigorously followed; (iii) evaluating the effectiveness of our key operational activities and their respective compliance with the current laws and regulations; (iv) reviewing our annual financial reports, verifying their authenticity and accuracy, and providing relevant comments to the Board of Directors; (v) monitoring our financial information and its proper disclosure and overseeing the formulation and implementation of our major financial policies; (vi) conducting annual audits and evaluating the effectiveness of our internal audit system; (vii) advising on the hiring or changing of external auditors and supervising their performance, while coordinating the communication between our internal and external auditors.

The Audit Committee currently consists of five members and is chaired by Mr. WANG Liyan (王立彥).

Related Party Transactions Control Committee (關聯交易控制委員會))

Our Related Party Transactions Control Committee is primarily responsible for (i) confirming and updating our list of related parties and making relevant reports to the Board of Director and Board of Supervisors; (ii) timely reviewing and approving our related party transactions to control relevant related party transactions risks; (iii) reviewing information disclosure matters relating to our substantial related party transactions; (iv) ensuring the authenticity, accuracy and comprehensiveness of disclosures regarding related party transactions in our financial reports and announcements.

The Related Party Transactions Control Committee currently consists of five members and is chaired by Mr. JIN Haiteng (金海騰).

Strategic Development Committee (發展戰略委員會)

Our Strategic Development Committee is primarily responsible for (i) overseeing the formulation of our overall strategic goals and strategic planning, including those for our branches, sub-branches and various business lines, (ii) reviewing our annual financial budget, the allocation of capital into strategic areas of our operations, and the overall objectives of our assets and liabilities management, (iii) reviewing proposals relating to the establishment or reorganization of our internal departments, (iv) designing major investment and fund-raising plans and reviewing related proposals submitted by the senior management team, and (v) evaluating the overall soundness of our management structure and conducting review on specific strategic plans such as those relating to human resources or IT development.

The Strategic Development Committee currently consists of five members and is chaired by Mr. YAN Junsheng (閻俊生).

Board of Supervisors and its Special Committees

Our Board of Supervisors' responsibilities mainly include supervising the Board of Directors and our senior management's performance of risk management duties, so as to enhance our strict compliance with the relevant law, regulations, and internal risk management policies.

Supervision Committee (監督委員會)

Our Supervision Committee is primarily responsible for overseeing the formulation, approval and implementation of specific inspection schemes designed to appraise the effectiveness of our business decision-making, risk management and internal control procedures. The Supervision Committee also supervises the discussion and feedback process relating to our internal audit reports.

The Supervision Committee currently consists of five members and is chaired by Mr. LIU Shoubao (劉守豹).

Senior Management and its Special Committees

Our senior management team carries out its various duties under the leadership and supervision of the Board of Directors, and in compliance with the relevant law, regulations and internal procedures. At the senior management level, our risk management system consists of the Risk Management Committee and seven special committees carrying risk management duties, including the Credit Review Committee, the Assets and Liabilities Management Committee, the Financial Review Committee, the Accountability Management Committee, the Business Continuity Management Committee, the Investment Management Committee and the Information Technology Management Committee.

Risk Management Committee (風險管理委員會)

The Risk Management Committee is primarily responsible for (i) overseeing our bank-wide risk management policies, including internal standards and procedures governing asset impairment and allowance provision; (ii) reviewing risk management reports submitted by various departments and branches; (iii) evaluating proposals and risk management matters subject to the Committee's approval authority; (iv) reviewing matters relating to the classification of our assets and the affirmation of such classification; (v) overseeing various other aspects of risk management, such as risk evaluation and measurement modeling, emergency response plans and rules and procedures governing asset disposal and bad debt cancellation.

The Risk Management Committee currently consists of 36 members and is chaired by Mr. TANG Yiping (唐一平).

Credit Review Committee (信貸審查委員會)

The Credit Review Committee is primarily responsible for reviewing and evaluating proposed credit extension subject to its review authority, taking into account the attributes of the businesses and the applicable regulatory requirements, in line with our internal credit policies, risk management principles and credit approval procedures.

The Credit Review Committee consists of 17 members and is chaired by Mr. ZHANG Yunfei (張雲飛).

Assets and Liabilities Management Committee (資產負債管理委員會)

The Assets and Liabilities Management Committee is primarily responsible for (i) reviewing our annual capital adequacy management and capital replenishment targets, (ii) monitoring the structure of our on- and off-balance sheet assets and liabilities and setting internal guidance and limits on various liquidity risk, interest risk and exchange rate risk indicators, (iii) formulating and adjusting the pricing rules for transfer of internal and external funds, including rules governing the interest rates of our deposits and loans products, and evaluating the pricing mechanism for our other businesses, and (iv) approving our annual plans for the issuance of liability management products.

The Assets and Liabilities Management Committee consists of nine standing committee members and is chaired by Mr. TANG Yiping (唐一平). *Ad hoc* members may be added depending on the meeting agenda.

Financial Review Committee (財務審查委員會)

The Financial Review Committee is primarily responsible for (i) evaluating the necessity and reasonableness of our major expenditures, (ii) reviewing our annual budgets (including but not limited to overall expenses, fixed asset investment, and intangible asset investment) and adjustments to such budgets, (iii) approving business expenditures not included in or exceeding our budget, and (iv) reviewing the disposal of certain fixed assets where the impaired amount exceeds relevant standards.

The Financial Review Committee consists of 10 members and is chaired by Mr. TANG Yiping (唐一平).

Accountability Management Committee (問責管理委員會)

The Accountability Management Committee is primarily responsible for leading, organizing and supervising our overall accountability management work, including (i) formulating and improving our accountability management policies and procedures, (ii) reviewing incident reports submitted to the Committee and imposing, within its authorization, disciplinary penalties on the relevant employees, (iii) reviewing and ruling on relevant employees' request for reconsideration of internal disciplinary decisions.

The Accountability Management Committee consists of eight members and is chaired by Mr. TANG Yiping (唐一平).

Business Continuity Management Committee (業務連續性管理委員會)

The Business Continuity Management Committee is primarily responsible for evaluating and supervising bank-wide implementation of our business continuity management policies and procedures, and improving our business continuity policies and procedures. It carries out these duties by reviewing reports submitted by various departments relating to business continuity management, and making regular reports and suggestions on the same topic to the Board of Directors.

The Business Continuity Management Committee consists of 35 members and is chaired by Mr. TANG Yiping (唐一平).

Investment Management Committee (投資管理委員會)

The Investment Management Committee is primarily responsible for reviewing the various risk management features of our investment business, including its business model, trade structure, investment standards, investment quota, selection of business partners, risk evaluation, risk control and the scope of business.

The Investment Management Committee consists of 23 members and is chaired by Mr. TANG Yiping (唐一平).

Information Technology Management Committee (信息科技管理委員會)

The Information Technology Management Committee is responsible for identifying, monitoring and controlling risks arising from our information technology system, and providing key support in enhancing our core competitiveness and business innovation capacity.

The Information Technology Management Committee consists of 18 members and is chaired by Mr. TANG Yiping (唐一平).

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) formulating bank-wide risk management policies and procedures, (ii) closely monitoring latest regulatory developments and continuously studying the best risk control practices in the industry, (iii) leading the establishment of our risk indicator database to enhance our identification, monitoring, prevention and mitigation of relevant risks, (iv) evaluating our overall risk management effectiveness and inspecting our various business lines' implementation of relevant risk management policies; (v) leading the management of non-performing loan disposal, including determining the proper allowance level, and (vi) overseeing our risk monitoring system, conducting periodic stress tests, and making emergency response plans.

Credit Review Department (授信審查部)

The Credit Review Department at our head office takes lead in organizing credit risk management work within our overall risk management system. Our Credit Review Department is mainly responsible for (i) drafting and enforcing bank-wide credit review policy and approval guidelines applicable to large and medium corporate clients, (ii) formulating annual working plans for the credit businesses and supervising their implementation, (iii) monitoring key credit risk indicators such as loan concentration, and (iv) managing our internal credit rating system for large and medium corporate clients.

Financial Market Department (金融市場部)

Our Financial Market Department is responsible for developing internal rules and procedures relating to our financial market business in line with the risk management guidelines issued by our head office, and overseeing the implementation of such rules and procedures.

Assets and Liabilities Management Department (資產負債管理部)

Our Assets and Liabilities Management Department is responsible for (i) organizing performance examination on the head office's relevant departments and the various branches, (ii) overseeing bank-wide funds transfer, fund position, and deposit insurance related management, (iii) implementing our internal policies and procedures relating to liquidity risk management, capital management, interest rate risk management, pricing for transfer of internal funds, pricing of deposits and loan products, setting of service fees, and approval of interbank settlement accounts, and (iv) submission of periodic financial reports to respective regulatory authorities.

Legal and Compliance Department (法律合規部)

Our Legal and Compliance Department is mainly responsible for the overall management of our legal, compliance and internal control matters, including (i) formulation of internal policies and anti-money laundering guidelines, (ii) cooperation with regulatory authorities during routine and *ad hoc* inspections, (iii) operational risks control and accountability mechanism, business continuity management, prevention of non-compliant incidents, contracts management, supervision over bidding processes, authority management, judicial assistance, and litigation management. It also takes the lead in coordinating our information technology risk management work and oversees the Information Technology Department's exercise of duties in this respect.

Information Technology Department (科技信息部)

Our Information Technology Department is responsible for ensuring the safe and stable functioning of our entire IT system, including mobile apps and online platforms for our digital banking services, handling emergency system failures, and upgrading our data-processing system to improve the efficiency of our risk monitoring and management.

Office of the Board of Directors (董事會辦公室)

Our Office of the Board of Directors is 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) overseeing our departments, branches and sub-branches' implementation of internal policies and procedures relating to reputational risk control.

Office of Strategic Development under the Board of Directors (董事會發展戰略辦公室)

Our Office of Strategic Development under the Board of Directors is responsible for (i) studying important issues pertinent to our long-term strategic development, (ii) organizing the promotion and supervision of bank-wide strategic risk management work, (iii) continuous monitoring and evaluation of our strategic risks, and making relevant proposals to the Strategic Development Committee, (iv) assisting the Assets and Liabilities Management Department with the allocation of capital in line with our strategic plans.

Audit Department (審計部)

Our Audit Department is responsible for (i) undertaking internal audit according to the internal auditing procedures (ii) evaluating and improving our business operations, risk management and internal control outcome by adopting appropriate auditing measures tailored to our specific needs, such as comprehensive auditing, special auditing, economic responsibility auditing and follow-up auditing, and (iii) reporting the outcome of internal audits to the Audit Committee and our senior management team.

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. For our sub-branches, the president takes the lead in the risk management. Our branches are required to submit regular risk management reports to the head office.

Dual Reporting Line System

We adopt a dual reporting line system at our branch level, where the risk managers dispatched by the head office to each branch report directly to the Risk Management Department at our head office and make simultaneous report to the presidents of the respective branches. Meanwhile, presidents at the sub-branches are required to report to the presidents of the branches in charge.

Upon the occurrences of significant risk incidents, the relevant departments at our branches report directly to the presidents of the respective branch and simultaneously to the President's Office (行長辦公室) at our head office.

Risk Monitoring and Alert

We closely monitor different types of risks 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**. We have established an effective credit management system, which covers the entire credit extension process, from application and pre-loan investigation to disbursement of funds and post-loan monitoring. We require that our employees log detailed information about customers and their applications into our credit management system on a timely basis pursuant to our standardized operational procedures. Authorized personnel may approve the loan applications within their respective limits through this credit management system. In managing post-disbursement risks, we require our employees to conduct inspections and record data in relation to the latest operational and financial performance of the relevant parties into our credit management system. Based on these data, we are able to analyze our loan portfolio and prudently manage bank-wide credit risks.

- **Market Risk**. We closely monitor fluctuations of interest rate, exchange rate and market price of securities and regularly conduct gap analysis, duration analysis, stress tests and scenario analysis in measuring and evaluating market risk in line with our prudent risk preferences. In addition, our Financial Market Department reviews data generated by third-party database to monitor the material fluctuation of the fair value of debt securities.

- **Liquidity Risk**. Our Assets and Liabilities Management Department monitors our liquidity position on a daily basis, maintains a liquidity monitoring system to calculate and analyze liquidity ratios, runs quarterly liquidity stress tests, and provides risk alerts and reminders in a timely manner. It also reviews the accumulated cash gap rate chart every day to manage our cash flow and position limit.

- **Operational Risk**. Our Legal and Compliance Department, with support from other departments at our head office and branches, monitor implementation of overall operational risk management measures formulated by our Risk Management Department. We require the relevant departments to make routine reports on a regular basis and immediate reports upon occurrence of significant incidents. We closely monitor our key regulatory indicators and the latest development of laws and regulations, constantly evaluate the effectiveness of our internal rules and timely conduct compliance review for our new products.

- **Information Technology Risk**. We have established a comprehensive information technology risk assessment system covering each key aspects of our operations, including data security, system development, operation and maintenance, connection with external resources and real-time reporting and recording. We require different operating departments to work with our Information Technology Department to identify, record and evaluate relevant risks and take proper mitigation measures accordingly. We also closely monitor key risk indicators and issue risk alerts at an early stage.

- **Reputational Risk**. We actively collect, organize, and analyze information in relation to our reputation through different media channels, and require that all departments, branches, and sub-branches submit regular reports on their respective reputational risk status. In addition, we have established an internal reporting mechanism to ensure timely and effective reporting to the head office upon the occurrence of material and urgent incidents.

- **Strategic Risk**. Our Office of Strategic Development under the Board of Directors (董事會發展戰略辦公室) works together with the Risk Management Department to monitor our risks in relation to our overall development strategy. We conduct regular strategic evaluations to discuss progress of prevailing economic, regulatory and industry conditions and to make necessary adjustments accordingly. We also require each business department, branch and sub-branch to make timely reports to our head office on the implementation of relevant strategies and key observations relating to strategic risk factors.

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 financial market business. We have built and continually improve a bank-wide credit risk management system to identify, measure, monitor, mitigate, and control risks that arise from our credit extension business. We have implemented standardized policies and procedures for credit review and extension management.

Credit Policy Guidelines

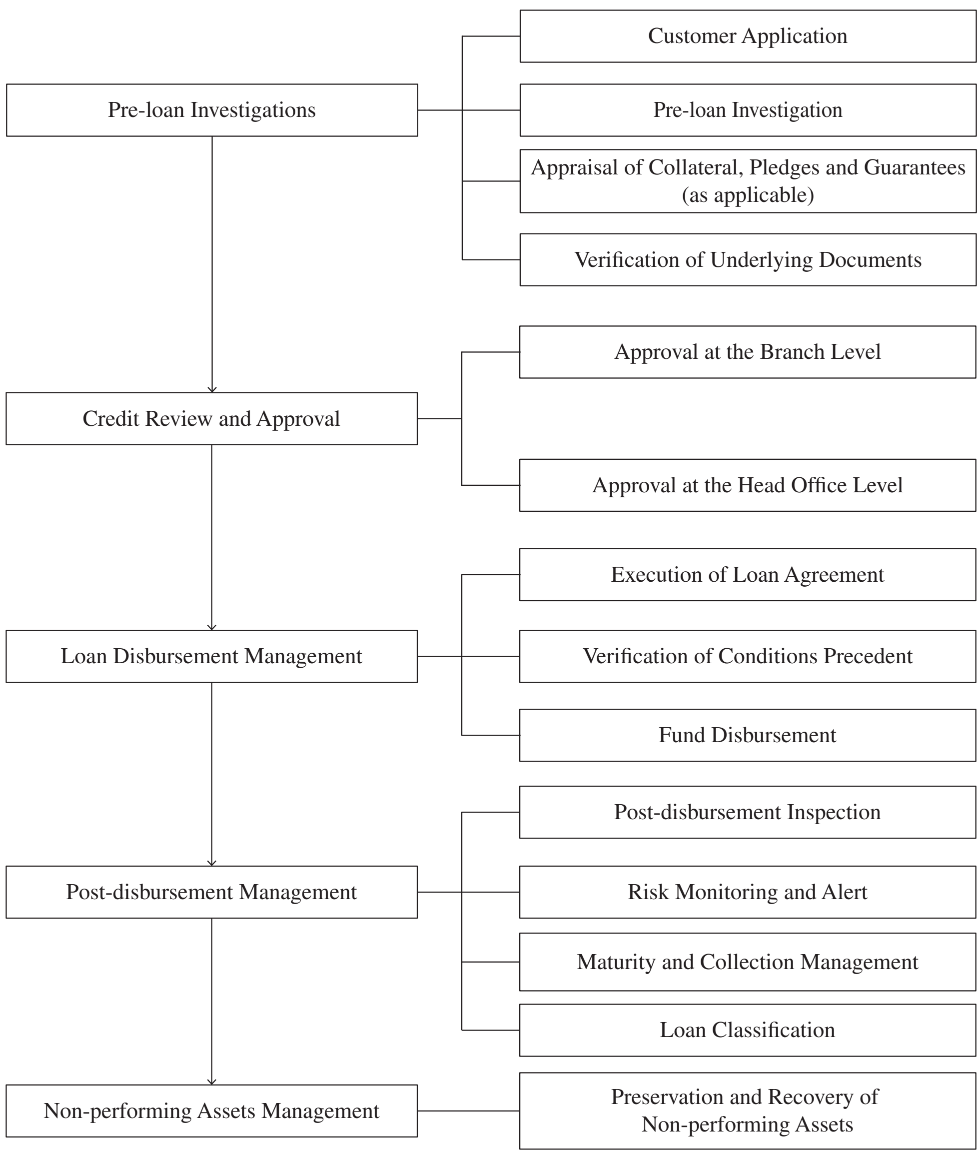
We are dedicated to striking a balance between achieving steady loan growths and maintaining a prudent culture of risk management. We prepared detailed guidance on credit risk management based on the provincial, national and international economic conditions, as well as the government policies and regulatory requirements. Our guidelines include overall credit policies and guidelines specific to key industries. These guidelines govern our credit extension in various aspects, including our preferences in relation to the industry, customer, and product type within our portfolio. We also adjust our guidelines in a timely manner to respond to changes in government policies, economic environment and our own risk appetite.

In formulating our credit policies, we study the macroeconomic environment in Shanxi Province and the PRC and analyze the risks and uncertainties that are relevant to our operations. We also closely follow the updates in local and national economic development plans, financial regulations and monetary policies and adjust our credit guidelines accordingly. For instance, we prioritize extending our credit to industries with relatively low risk, good growth potential and social benefits based on our research on governmental planning, such as the healthcare services industry and the transportation sector. We also enhance credit support to micro and small enterprises and basic services industries in response to relevant macroeconomic policies. In the meantime, we adopt a prudent credit extension strategy on, and limit our credit exposure to, industries with unfavorable growth prospects.

Based on the business prospect of different industries, we have developed credit guidelines to classify credit origination preference into four categories: “supported”, “prudent”, “restricted” and “prohibited”. We prioritize allocation of our credit resources to the industries in the “supported” category, such as the industries relating to infrastructure and public welfare projects with strong government support; industries that can effectively mitigate risks associated with economic cycles such as medical, education and tourism; and other industries like public transportation, high-end equipment manufacturing and emerging industry with strategic importance. Based on in-depth evaluation of our overall asset portfolio and the specifications of each individual project, we provide calculated credit support to industries in the “prudent” category, such as industries relating to power generation, real properties, construction, department stores and new commerce. The “restricted” category and “prohibited” category include the industries expressly restricted or prohibited by PRC Government, clients with unfavorable credit records and other clients who we believe do not meet the requirements of credit extension. For the "restricted" category and "prohibited" category, we refrain from granting new credit and have gradually reduced the amount of outstanding credit extended to the relevant clients. Our credit policies may also vary in different geographical regions based on local conditions.

Credit Risk Management for Corporate Loans

Our credit risk management procedures for corporate loans 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 and Pre-loan Investigation

After a corporate banking customer submits a credit application, we start our pre-loan investigation process. We require the applicant to provide necessary supporting documents, such as its organizational documents, business certificates and recent financial statements. We also require the applicant to provide its ownership certificates and valuation reports for collateral and pledges on secured loan, and the information and relevant supporting documents about its guarantors, if the loan is guaranteed. Our account managers will review relevant documents pursuant to our established criteria and verify their authenticity and validity.

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. Each of the two account managers shall visit the borrower's business premises and inspect their manufacturing equipment, inventories, value-added tax invoices and utility consumption to verify their actual business operations. Our account managers also examine the customer's shareholding structure, credit history, operational status, compliance status, industry development, regulatory environment and financial condition, and conduct an analysis of the customer's proposed use of proceeds and capability for repayment. In particular, the account managers scrutinize the legitimacy and rationality of the loan demand before determining if the borrower's intended use of proceeds is consistent with its business needs and development plan.

Appraisal of Collateral, Pledges and Guarantees

We conduct collateral appraisal prior to approving an application for secured loans. 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 property 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.

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. We also determine the necessity 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.

We determine the loan-to-value ratios of the loans by considering various factors such as the collateral and pledges' market value and condition. The maximum loan-to-value ratios for the principal types of collateral and pledges securing our corporate loans are as follows:

Type of collateral and pledges	Maximum Loan-to-Value Ratio
Collateral	
Urban residential properties	70%
Urban land use rights for commercial and residential use	70%
Urban land use rights for industrial use	70%
Standardized plants, workshops and warehouses	70%
Rights to use forest, wood and forest land	60%
Construction in progress	50%
Pledges	
Security deposits	100%
Certificates of deposit	95%(1)
Treasury bonds (certificate bonds and saving bonds)	95%(1)
Bank acceptance bills	90%(1)
Debt securities issued by corporations	70-80%(2)
Shares and convertible bonds	60%
Warehouse receipts and bills of lading	70%
Receivables	70%

Notes:

(1) Applicable to loans with terms not exceeding one year.

(2) Adjustable based on the credit ratings of the specific corporation.

For guaranteed loans, we conduct a comprehensive analysis on the guarantors' background to determine the qualification, capacity, reliability and willingness of the guarantor. 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 salary issued by their employers, and other relevant documents. For entity guarantors, we generally require them to provide (i) business certificates, articles of association and other necessary organization documents; (ii) their shareholders' resolutions or board resolutions approving provision of relevant guarantee; and (iii) other documents as necessary. We also request guarantors to provide information about existing loans and guarantees they provided to other companies. In accordance with our internal policy, we are required to carry out cautious pre-loan investigation for the application of loans guaranteed by related enterprises within the same group, or enterprises in the same industry or with similar business operations that may be vulnerable to similar risk factors.

Verification of Underlying Documents

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 sources, including 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). From time to time, we also contact our clients' third-party suppliers, customers and competitors 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.

Credit Review and Approval (信用審核)

We determine the authorization of credit review and approval based on the loan amount. Furthermore, to better serve and manage loan applications, our business departments at the head office and our branches are authorized to process loan applications within their authorization. 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 nature and specification of the relevant loan products and the economic conditions of the local markets where the respective branches are located.

Credit Review and Approval at the Branch level or Business Departments at Head Office Level

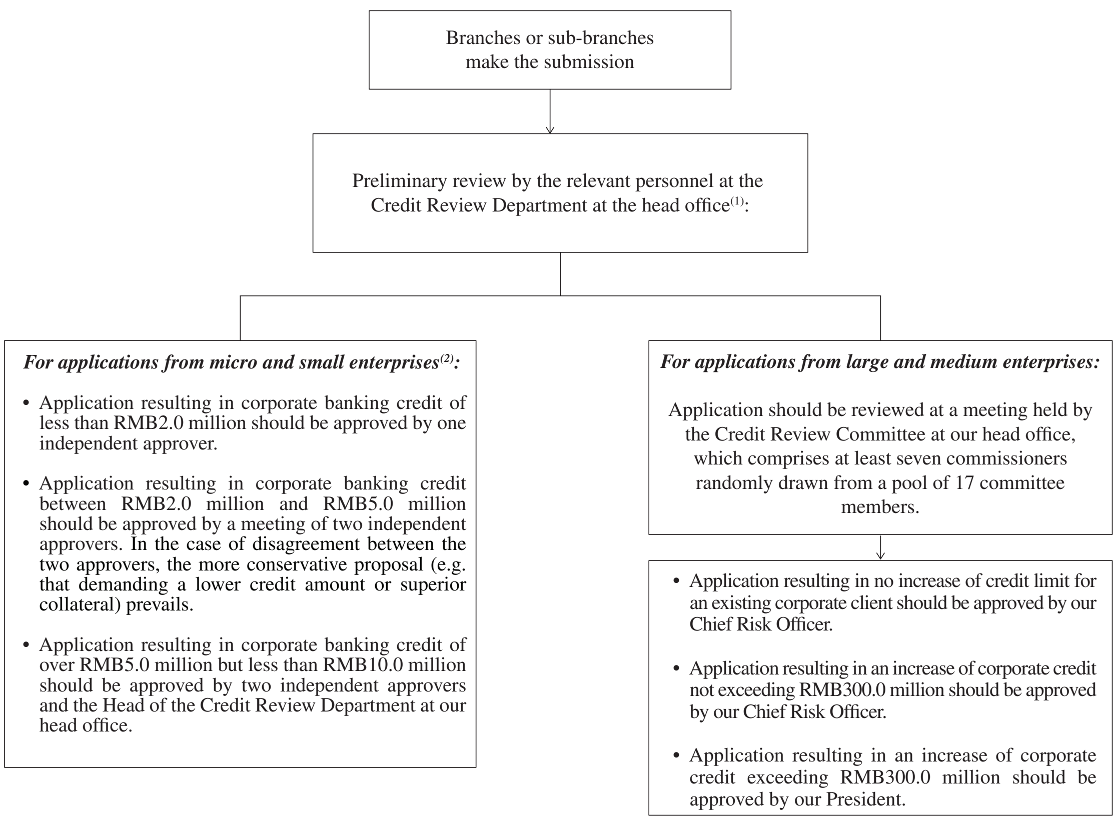
For applications within the approval authority of our branches or business departments at our head office, the ultimate approvers are usually the presidents or vice-presidents in charge of risk management at the branches, or heads of the relevant business departments at the head office, respectively, or risk managers dispatched by the head office. Credit review at this level is generally conducted by employees in charge of credit review, who examine the documents or information provided by customers and other materials obtained during pre-loan investigation. The employees in charge of credit review may require relevant applicants to 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 by the branches or business departments at our head office, the employees in charge of credit review 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 review and approval group meeting at the relevant branch or department. The credit review and approval group meeting will determine whether the application could be submitted to the authorized approvers for final review and approval. The authorized approvers have the veto right on applications falling within this category.

Credit Review and Approval at the Head Office Level

For an application with a loan amount exceeding the approval authority of a branch or business department at the head office, the application will be submitted directly to the head office through our credit management system, which will be further delivered to a specific examiner of the Credit Review Department for preliminary review. Such examiners may request additional documents from the applicants.

After the preliminary review is completed, the examiner prepares a credit review report containing the key risks identified and the corresponding risk mitigation measures for the application. Upon completion of the preliminary review conducted by the Credit Review Department, applications must then go through further internal approval procedures based on the amount involved. The diagram below sets forth the general review and approval procedure for our corporate loans as of the Latest Practicable Date.



Note:

(1) Where a major related party transaction is involved, such transaction will be submitted to the Related Party Transactions Control Committee for review, and then submitted to the Board of Directors for approval. Where a non-major related party transaction is involved, such transaction will be filed with the Related Party Transactions Control Committee for record after it is approved by authorized approvers.

(2) From time to time, depending on the amount of the loan, the nature of the business, and our relationship with the customer, we may refer loan applications submitted by micro and small enterprises to the Credit Review Committee at our head office to go through a more rigorous credit review process similar to that we use for large and medium enterprises.

Independent approvers refer to the professional employees who are authorized to conduct the review and approval of a case independently. Specifically, an independent approver has the rights to: (i) conduct credit ratings on corporate customers, (ii) independently perform credit review duties to supplement the existing due diligence report and credit analysis, (iii) participate in broader credit review and approval related matters, such as commenting on credit guidelines for different industries, geographic regions and products, and assisting with the formulation of our credit policy.

We select independent approvers from qualified staff with requisite experience and expertise. We have an independent approvers selection team comprising the heads of different departments at our head office who evaluate qualified candidates and submit recommendations to the Human Resources Department at our head office and other authorized departments for final approval.

As of the Latest Practicable Date, the Credit Review Committee at our head office consists of 17 members, including our Chief Risk Officer, Head of the Credit Review Department, independent approvers, and management personnel at our key departments entrusted with risk management duties (such as the Legal and Compliance Department and the Risk Management Department). We periodically review the composition of the Credit Review Committee to ensure that it remain compatible with our business needs.

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 agreement. Any deviation from the standard terms must be reviewed by the loan origination department and other relevant departments, including the Legal and Compliance Department, or external legal advisors.

Verification of Conditions Precedent

We have established a standardized operational procedure for corporate loan disbursement. Our relevant business departments at the head office, branches and sub-branches are responsible for the overall management and supervision of corporate loan disbursement. Our account managers are responsible for handling the post-approval matters including the registration and insurance of collateral. We require two persons to independently conduct a review of these post-approval matters. These reviewers verify the completeness and legal validity of the disbursement application and other supporting materials submitted by the borrower, such as the ancillary agreements and the required evaluation reports, to ensure that all conditions precedent specified in the credit approval documents are satisfied.

Fund Disbursement

Upon the approval by the disbursement reviewers and the Risk Management Department's disbursement center, our relevant departments at the head office, branches or sub-branches will commence loan disbursement in accordance with the 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.

Post-disbursement Inspection

We conduct routine inspections at the post-disbursement stage that comprise on-site visits, periodical examination and continuous monitoring. The frequency of our routine inspections varies mainly depending on the amount of credit granted as well as the type and classification of loan products. Our account managers are required to conduct inspections on customers with loans classified as normal at least on a quarterly basis, and on customers with loans classified as special mention or below on a more frequent basis. In addition, we may also conduct special inspections on particular industries, areas, products or customers from time to time.

Our account managers also closely monitor the use of loan proceeds and the conditions of the collateral as part of our standardized post-disbursement procedures. They are required to keep a detailed inspection log on the borrower's use of proceeds (《貸款用途檢查表》) and look out for signs of misappropriation indicative of, for example, corporate loans being used for personal expenditure, transfer of proceeds across related parties, or short-term working capital loan proceeds funneled into long-term investment. Upon noting fraudulent transactions or misappropriation of funds, we take intervening measures including suspension of scheduled fund disbursements. We may also demand immediate repayment of all outstanding loans under the borrower's name.

During the regular post-disbursement inspections, we look into factors closely related to the corporate borrowers' operations, including but not limited to (i) industry developments and trends; (ii) business operation status regarding their major customers, products and investments; and (iii) their financial conditions, especially changes in their sales, profits, inventory, receivables, payables and borrowings.

We also carry out off-site monitoring by obtaining and analyzing 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 Credit Reference Center of PBoC (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 requesting additional collateral or imposing a lower credit limit. For example, after we notice that a borrower or guarantor provides guarantee to other companies for their application of loans, we may request credit enhancement measures from the borrower or guarantor to mitigate the risk.

Risk Monitoring and Alert

We monitor our credit risk both collectively and individually. On the collective level, we analyze the concentration risks by industry, geography and customer type, as well as the overall quality and risks of the credit assets. On the individual level, we conduct regular post-disbursement review on the quality of single and group loans, analyzing financial and non-financial indicators such as the status of borrower's operations and businesses, account position, operational environment, business prospects and repayment ability, and internal and external credit risk factors such as the abnormal fluctuation of borrower's stock price and changes in its credit rating.

Upon identifying factors that may negatively affect business operations of the borrower, we require account managers to make immediate report to the relevant business departments or our head office. Our head office or risk management departments at the branches and sub-branches set out clear guidance for the relevant departments to handle the risks and to continuously monitor the effect of such risk control measures. For risks on the collective level, we may take broader measures including adjusting our business model, optimizing our product mix and setting out updated credit limit. For risks on individual level, we may, depending on the loan amount and extent of impact, take measures including adjusting borrower's credit rating and/or available banking facilities, collecting repayment from the borrower, pursuing recovery from the guarantor, transferring creditor's rights and initiating litigation.

Maturity and Collection Management

In general, we require our account managers notify the borrowers of upcoming repayment by written notice within 30 days before the due dates. Before the date of interest settlement, we require our account managers 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 periodic (at least quarterly) written reminders to the customers in default and their guarantors, if any, right after the due date and until all the past due principals and interest are paid in full. 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

Loan classification is an important part of our post-disbursement monitoring measures. For risk management purposes, we divide our credit assets into five levels in accordance with relevant CBIRC requirements, namely "normal", "special mention", "substandard", "doubtful" and "loss", and consider the loans classified as "substandard" or below as non-performing loans. 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 default period of the loans, and the legal liabilities of parties in relation to the repayment of the loans.

Account managers at our branches conduct a preliminary classification for the corporate loans based on factors such as borrowers' repayment ability, repayment history, guarantees and collateral, and submit the results to the authorized approvers at the branch level for their approval, and then to our head office for final confirmation. Our head office has the authority to adjust the classification.

We closely monitor the quality of loans and may reclassify our corporate loans based on the results of routine (quarterly) and *ad hoc* inspections. If a factor possibly resulting in downgrade of classification is triggered, our account managers are required to make timely submission of reclassification to the authorized approvers at the branch level, and then such authorized approvers should review and further submit such reports to our head office for final approval according to our internal policies. If no initial agreement can be reached on certain loan reclassifications, such matters will be presented at the Risk Management Committee meeting for further review and determination.

In managing credit risks, we also pay close attention to risks associated with excessive guarantees that relevant borrowers or guarantors provided to third parties which may further negatively affect (i) relevant borrowers' capacity of making timely repayment or (ii) the value of collateral or guarantee provided by relevant guarantor securing relevant loans. While we do not deem existence of such excessive guarantee as the only factor indicating significant risks, we closely evaluate risks associated with this issue at different stages of our credit risk management process. For details, please also see the subsections headed "– Pre-loan Investigation", "– Credit Review and Approval" and "– Loan Disbursement Management" above. In particular, in determining whether there is significant credit risks in relevant loans which are associated with excessive guarantees mentioned above, we take into account a broad range of factors, including financial status and creditworthiness of relevant borrowers, guarantors or other companies to which they provide guarantees, concentration of credit risks associated with these entities and historical incidents in those regions where the relevant entities are located. For instance, upon noticing a historical incident in Yuncheng city of Shanxi Province that arose from guarantee practice of local enterprises, we have undertaken more stringent measures in identifying, monitoring and mitigating our risk exposure accordingly. For details, please also see the section headed "Assets and Liabilities – Assets – Asset Quality of Our Loan Portfolio – Transfer of Loans."

Primarily due to our continuous efforts in preventing and mitigating credit risk and effective implementation of risk management measures, we successfully resolved risks associated with excessive guarantees provided by borrowers and/or guarantors to third parties in relation to our loans and advances, including those we granted to corporate borrowers incorporated in Yuncheng city and individuals who reside in Yuncheng city, through various means, including disposal of and transfer. As of Latest Practicable Date, we are of the view that we were not subject to material risks associated with excessive guarantees that relevant borrowers or guarantors provided to third parties. We had also made sufficient provision against credit risks, including risks associated with excessive guarantees provided by borrowers and/or guarantors to third parties in relation to our loans and advances, including those we granted to corporate borrowers incorporated in Yuncheng city and individuals who reside in Yuncheng city. For details of methodology and accounting policies relating to provisioning, please see the sections headed "Assets and Liabilities – Assets – Allowance for Impairment Losses on Loans to Customers" and "Financial Information – Critical Accounting Judgments and Key Sources of Estimation Uncertainty – Impact of New Accounting Policies". Please also see the section headed "Risk Factors – Risks Relating to Our Business – The collateral or guarantees securing our loans to customers may not be sufficient or fully realizable".

Non-performing Assets Management

We attach great importance to the management of non-performing assets. The collection center established by the Risk Management Department at our head office is responsible for bank-wide collection and disposal of non-performing assets by our sub-branches. We invest in the continual improvement of non-performing assets disposal mechanism through a broad range of measures such as establishing and updating policy according to prevailing regulatory environment, innovation of collection scheme, introduction of professional staff and enhancing our review of collection by our branches and sub-branches.

We recover non-performing assets through various means, including repayment negotiation, legal proceedings and arbitration. We may also write off non-performing assets according to the requirements of MOF and make tax adjustments according to the MOF rules, the record of which will be filed. We reserve our rights to collect from the debtors and proactively pursue our collection, and to downgrade a borrower's credit ratings. We do not issue new credits to a borrower who is behind on repayment.

Repayment Negotiation. We proactively negotiate with debtors with repayment capabilities. We may initiate legal proceedings to accelerate the repayment negotiation with debtors with repayment capabilities but not willing to repay, so as to shorten the collection time and improve our collection efficiency.

Legal proceedings. From time to time, we turn to legal proceedings, 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 the application for attachment or compulsory execution orders.

Arbitration. We may initiate arbitrations to collect debts which may improve the collection efficiency.

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, 2016, 2017 and 2018, loans we granted to LGFVs amounted to RMB399.1 million, RMB300.0 million and RMB298.0 million, respectively, accounting for 0.9%, 0.4% and 0.4% of our corporate loans and 0.2%, 0.1% and 0.1% of our total assets, respectively.

We impose strict control on our credit extension to LGFVs. We strengthen our risk management by limiting the total amount of credit for LGFVs and optimizing our assets structure. Specifically, we have adopted the following measures:

- We prioritize our support to government institutional customers located in regions where the local governments are in a strong financial position. In particular, we prioritize our support on government projects sponsored by the Shanxi Government, the Taiyuan municipal government and the urban area government entities in Taiyuan.

- We prioritize our support for significant construction projects, such as large-scale infrastructure construction projects and public service projects that are included in the government's fiscal budget and those with stable demand, stable cash flows, and high marketization.

- We prefer land and buildings as collateral or third-party guarantees in our financing plans. For projects that rely on governmental purchase or governmental spending, we require the financing projects to possess all required approvals and require the government to provide relevant financing in their budget according to legal procedures.

- We encourage the use of public-private partnership (PPP), asset backed securitization, industrial funding, government purchase of services, and other flexible or hybrid structures to provide financing.

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.

As of December 31, 2018, we had outstanding credits extended to only one LGFV, a state-owned entity, where loan proceeds were used to facilitate an urban village reconstruction project in line with the government's macroeconomic policy. Before lending to this LGFV in 2017, we went through a rigorous credit review and approval process similar to that we adopt for other corporate loan applications. For the year ended December 31, 2018, this LGFV recorded negative operational cash flows, mainly because the reconstruction project was still at its initial phase where residents living in the area had to be compensated and relocated, before the LGFV could further consolidate the underlying properties for sale and generate additional cash flows from there.

We closely monitor the progress of the relocation, review the LGFV's financial and operational status, and conduct quarterly on-site investigation on this project. As of the Latest Practicable Date, we had not discovered any delays or abnormalities in relation to this project. In January 2018, July 2018, and January 2019, this LGFV made three timely repayments according to our loan agreements. As of December 31, 2018, both of our loans to this LGFV were classified as normal.

Credit Risk Management for Loans to Real Estate Industries

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. We prioritize our support to leading nationwide or regional real estate developers, and prudently support new or small-scaled real estate developers. We also consider the geographic locations and types of the projects and provide tailored financial products to different customers.

In terms of project types, we prioritize our support for regular residential property development projects and prudently support commercial property development projects, particularly those commercial property projects that can only be used for limited types of business. For our real estate development loans, we only extend credit to the borrowers who have obtained all necessary government approvals, permits and certificates and have good credit record. We prohibit credit extension to real estate development projects (i) which are significantly overpriced compared to similar properties; (ii) where the construction is deliberately delayed or suspended, (iii) the land reserve of which has remained idle for a long period of time; (iv) the capital of which is inadequate or inauthentic; and (v) that are restricted under relevant national government policies, industry policies or macro-control policies.

As of December 31, 2018, the balance of our loans for the real estate industry amounted to RMB13,529.1 million, representing 18.3% of our corporate loans.

Credit Risk Management for Loans to Industries with Heavy Pollution, High Energy Consumption or Overcapacity (兩高一剩)

The State Council, the CBIRC and the Shanxi Province have promulgated policies to restrict loans to industries with heavy pollution, high energy consumption or overcapacity. In accordance with these policies, we strive to reduce our risk exposure to these industries and prohibit all forms of new credit extensions to the entities or projects not in compliance with national industrial policies and market entry conditions. Meanwhile, we prudently support industry leaders in certain sectors within the energy industry, especially those with advanced innovative technology capacity to promote clean production and consumption efficiency.

As of December 31, 2018, we had loans to enterprises in the iron and steel industry and the coking industry, which are commonly associated with heavy pollution, high energy consumption or overcapacity, with the balance amounting to approximately RMB12,918.7 million, accounting for 17.5% of the balance of our corporate loans as of the same date. None of the enterprises' manufacturing facilities or production lines fall within national phased-out or restricted categories. As of December 31, 2018, the NPL ratio of our loans granted to these industries was 1.81%. 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".

We conduct pre-loan examination on whether a customer's equipment and production technology falls into the outdated production capacity being phased-out in accordance with national policies, before extending loans to enterprises in industries with heavy pollution, high energy consumption, and overcapacity.

Credit Concentration Management

We focused on developing business relationships with strategic customers, particularly large enterprises in Shanxi Province. 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 to ensure that the balance of loans granted to the same borrower does not exceed 10% of the net capital of the Bank. We impose limits on the total credit that can be granted to a single customer, which we adjust based on national and local laws and regulations, as well as our credit policies.

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 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. Please 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 regulation and government policies".

After the promulgation of the *Measures for the Administration of the Large Exposures of Commercial Banks* (商業銀行大額風險暴露管理辦法), we started establishing a system to control large exposures involving bank and non-bank customers. We also set up a series of measures and methods to manage large exposures, including connected customers identification, recognition and monitoring. 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)), we conduct investigation on our customers to select customers available for joint credit granting and at the same time prepare to coordinate with the lead bank to work on the management for joint credit extending after the local regulatory authorities and bankers association release the unified work arrangement for joint credit granting in pilot enterprises. For more details on our credit risk limit indicator, please see "Supervision and Regulation – Loan Classification, Allowances and Write-offs – Other Operational and Risk Management Ratios".

Credit Risk Management for Personal Loans

Our credit risk management procedures for personal loans include pre-loan investigations, credit review and approval, loan disbursement management and post-disbursement management.

Pre-loan Investigations

Upon receipt of personal loan applications, our account managers conduct due diligence on applicants through on-site and off-site investigations. In pre-loan investigations, we take into account the applicants' basic information, credit history, income, the intended use of proceeds, and the source, methods and ability of repayment as well as the security of the loans. We generally designate two account managers to review the supporting documents and verify the information provided by the applicants. We also require these account managers to conduct interviews in person with the applicants to verify applicants' true identification, occupation and to examine their financial conditions. 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.

We also investigate the credit records of applicants based on the information collected from internal data, the PBoC or other sources. For personal loans secured by collateral and pledges, we usually designate a third-party appraiser to verify the value of the collateral and pledges, similar to the valuation for corporate loans. For details, please see the subsection headed "– Credit Risk Management – Credit Risk Management for Corporate Loans – Pre-Loan Investigation – Appraisal of Collateral, Pledges and Guarantees". For guaranteed personal loans, we also investigate the guarantors' background, financial conditions and guarantee ability.

Credit Review and Approval

We generally determine the authorization of credit review and approval based on the type and amount of the loan to be approved. We routinely adjust standards and structure of the authorization based on changes in various elements that may affect our business, including changes to the local markets and the nature and specification of relevant collateral and pledges.

Credit Approval at the Branch Level

For application within the authority of a branch, the president of the branch is the ultimate person to make approval. Credit review at this level is generally initiated by two account managers who shall draft an investigation report and upload the report to our credit management system for preliminary review and assessment by the credit review staff. Upon completion of such review, the report will be submitted to the authorized approvers at respective branches for further review. The president of the branches has the authority to approve the relevant application. 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.

Credit Approval at the Head Office Level

For an application with a loan amount exceeding the authority of a branch, such application shall be submitted to the head office by the relevant branch through our credit management system, which will be further delivered to the authorized approvers. The authority of the ultimate approvers is determined according to our internal procedures, based on the type and amount of the loans under review.

Loan Disbursement Management

The disbursement procedure for personal loans is similar to that for our corporate loans. Upon the approval of a personal loan application, we enter into a loan agreement and other ancillary agreements with borrowers. We disburse the funds to personal customers only upon the satisfaction of all the conditions precedent specified in the credit approval documents and the loan agreements. For secured loans, we disburse loans only after completion of relevant guarantee procedures or collateral appraisal.

Post-disbursement Management

We conduct routine inspections and special inspections after the disbursement of the loans. We check the use of proceeds by analyzing relevant accounts, examining documentations and conducting on-site investigations. Our inspection requirements vary based on the types and the classification of the loans. We generally conduct inspections on customers with loans classified as normal on a quarterly or semi-annual basis, and on customers with loans classified as special mention or as below on a more frequent basis.

We generally examine borrowers' basic information such as marriage status, health conditions and credit history. For personal business loans, we also analyze borrowers' business and financial conditions and repayment abilities by checking their financial statements, business scope, major customers, transaction value and transaction volume. For personal consumption loans, we generally examine borrowers' assets condition, proof of income and other relevant documents to analyze their repayment abilities and use of proceeds. For residential and commercial mortgage loans, in addition to monitoring the changes in the borrowers' repayment abilities, we inspect the operations and financial condition of the real estate developers, as well as the status of their projects.

Our risk monitoring and alert, loan classification, maturity and collection management and non-performing assets management for personal loans are similar to those for our corporate loans.

Credit Risk Management for Off-Balance Sheet Businesses

We strictly review the underlying business of off-balance-sheet transactions and verify the authenticity of the transaction documents. We also require strict compliance with our internal procedures to ensure that no transaction relating to products, projects or activities prohibited by the current laws and regulations will be approved.

Related Party Credit Risk Management

To control risks arising from related party transactions and ensure our compliance with relevant laws and regulations, we have specified in our internal policies the standards for identifying related parties, the review and approval procedures for related party 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 to maintain a centralized monitoring and management system for related party transactions. According to our internal policies, our credit extensions to the related parties shall not lead to conflicts of interest. The pricing of the related party 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, 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. We continue to optimize our related party credit investigation, review and approval processes to further reduce the credit risks in relation to our shareholders and other related parties.

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 Financial Market Department is responsible for conducting initial review on credit applications from interbank customers. Our Credit Review Committee at the head office is responsible for further reviewing and approving the interbank credit extension, by taking into account various factors including interbank customers' qualification and the type, term and amount of the proposed credit extension.

We conduct regular evaluation on our interbank customers' capital strength, business operations, financial condition, compliance with regulatory indicators, proposed cooperation with other parties, risk events and other external 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 the interbank credit limits in a timely manner. Meanwhile, we also maintain strict eligibility criteria for our counterparties and only cooperate with counterparties with solid qualification.

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 apply the principle of prudence in managing the credit risks arising from our investments in debt securities. For debt securities issued by enterprises, we apply a stringent credit review and approval procedure similar to that for corporate loans. The ultimate debtors of corporate debt securities are subject to our unified credit extension management. Corporate debt securities investment must be first reviewed by the Credit Review Committee and subsequently by the authorized approvers. We also monitor our 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 business.

Underlying asset credit risk management. We adopt the same credit risk management standard as in our loan business for SPV investment. For investment plans with a single borrower, we use the same credit review and approval standards to evaluate the creditworthiness of the borrower. In addition, 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, no matter which financing method we provide.

Counterparty Management. We implement and maintain a list of approved banks and financial institutions, which is subject to review and update, pursuant to our internal policy named the *Measures for the Administration of Granting Credit to Financial Interbank Clients* (《金融同業客戶授信管理辦法》). When choosing a counterparty, we conduct comprehensive evaluation on a broad range of factors, including but not limited to the potential counterparties' qualification, operation conditions and credit records, and we will from time to time adjust the list of counterparties based on the evaluation result. Generally, we assign a credit rating for each of these counterparties and classify them into different categories.

Due Diligence. We require our business departments to conduct due diligence on the ultimate financing parties prior to the investment. Our relevant business departments who originate the application should conduct comprehensive due diligence investigation on the credit history, reputation, growth prospect, and the business track records of the ultimate borrowers, guarantors, and counterparties and prepare a relevant report on this matter. Our legal advisor will review the relevant contracts and other legal documents to make sure that our interest under the proposed investments is protected.

Review and Approval. Our SPV investments must be preliminarily reviewed by the Financial Market Department at our head office. For a case that exceeds the approval authority of the Financial Market Department, the proposal and all due diligence documents will be submitted to the Credit Review Department for further review and approval. We conduct credit review and risk evaluation in relation to SPV products in a similar way as we do for other credit businesses, so that we have a centralized control on relevant risks. For details, please see "– Credit Risk Management – Credit Risk Management for Corporate Loans – Credit Review and Approval".

Inspections and Monitoring. We require the business origination departments to conduct initial inspections within two days after the fund disbursement and monitor the use of the proceeds. We also require our business origination departments to conduct regular inspections at least once a quarter on the financing entities. Our business origination departments inspect the operational status, financial condition, project progress and collateral ownership of the financing entities, make quarterly monitoring reports on post-disbursement management and file such reports for records. Other departments may conduct special inspections on any particular industry, region, product or financing entity as it deems necessary. We actively monitor the financial indicators of the financing entities and issue risk alerts if any material adverse event is discovered.

Classification. We classify our financial assets based on the same standards applicable to our corporate loans. For details, please see "– Credit Risk Management – Credit Risk Management for Corporate Loans – Post-disbursement Management – Loan Classification".

In addition, we have also implemented specific risk management measures for our investments in different types of financial assets.

Trust Plans and Asset Management Plans. Before investing in trust plans or entering into asset management transactions, we conduct due diligence on the trust companies, the asset management companies, the securities companies, the financing parties or other financial institutions issuing asset management plans, and make sure such companies have stable operations and good track record. In addition, we perform a comprehensive assessment, review and approval procedure on the plans. We also conduct post-investment review on the trust plans and asset management plans on a quarterly basis.

Wealth Management Products and Funds. We have established a separate review and approval system for investments in wealth management products and funds. Prior to making an investment in wealth management products issued by other PRC banking and financial institutions or funds, we assess the risks associated with such wealth management products by reviewing various factors, including the credit history and track record of the issuing financial institutions and the portfolio investments underlying the wealth management products. We generally invest in wealth management products issued by policy banks and commercial banks with sound asset management capabilities and are directly managed by the same banks or public funds.

For our investment in wealth management and fund products, we require the relevant issuers to provide us with information concerning the scope of their investments utilizing our funds or a list of assets invested by the issuers for our review. We explicitly prohibit issuing financial institutions from using proceeds of such products in any manner against relevant laws or our internal policies. We may take legal actions to protect our interest if these counterparties fail to perform their contractual obligations.

Information Technology System for Credit Risk Management

We are committed to improving our credit risk management with advanced information technology systems through our in-house team and external contractors. Our credit management system enables account managers to efficiently collect and analyze customer data, such as historical transaction records and financial conditions, and provides close monitoring and timely alert on the maturity of loans. Our information technology system automatically matches credit applications to relevant approval procedures based on the amount of credit requested, which reduces the risk of unauthorized approval. Our information technology system automatically identifies group customers for us to effectively control the credit limit of group customers. In addition, our account managers and management departments at all levels can check real-time information of overdue loans through our information technology system to control risk of overdue loans.

MARKET RISK MANAGEMENT

Market risk is the risk of losses to our on- and off-balance sheet businesses arising from movements in the market prices. We are exposed to market risks primarily through the assets and liabilities on our balance sheet and the commitments and guarantees off our balance sheet. The major type of market risks we are exposed to is interest rate risk. The goal of our market risk management is to control the market risk to a tolerable level and to maximize the risk-adjusted returns based on our risk appetite.

We have established a comprehensive market risk management system comprising our Board of Directors, Board of Supervisors, senior management, Risk Management Committee under the senior management and business departments including our Risk Management Department, Audit Department, Assets and Liabilities Management Department, Financial Market Department, Legal and Compliance Department and other departments in charge of risk management relating to their business.

Our market risk management involves the identification, measuring, monitoring and control of market risks. We primarily employ risk sensitivity and stress tests in measuring and monitoring market risks. We adopt different quantitative measures to manage various types of market risks in our banking and trading books.

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. As a result of the liberalization of interest rates, the fluctuation of the interest rates has gradually changed from policy-oriented to market-oriented, and therefore subject to more uncertainties.

Impact on Deposits and Loans

Changes in interest rates on our deposits and loans mainly affect our interest rate spread and the value of our loans. As interest rate spread is our main source of operating profit, the PBoC's adjustments to the benchmark on rates of deposit and loan and the resulting changes of market interest rates will affect our revenue structure and profitability. In particular, in respect of our fixed interest rate businesses, changes in interest rates may lead to changes in our customers' decisions. When the interest rate increases, our deposit customers may withdraw their deposits early and put them in other savings products for higher interest rate, which may increase our interest expenses. When the interest rate decreases, our loan customers may repay their loans early and apply for new loans with a lower interest rate, which may lower our interest income.

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 benchmark interest rates 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 benchmark interest rates or prevailing market 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 our profitability. On the other hand, 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. Given the uncertainties about changes in future market interest rates, there is a risk that the value of our investments may decrease due to our misjudgment in making investment decisions according to our expectations on the future market interest rates.

Interest Rate Risk Management

We have formulated and implemented relevant interest rate management policies, 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 PBoC benchmark interest rates, funding costs, asset risks and other indicators as the basis for pricing, 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 periodically conduct sensitivity analysis on interest rates. We analyze the interest rate gap between interest-bearing assets and interest-bearing liabilities on bank accounts and transaction accounts periodically, based on which we guide our business development.

We constantly follow the latest development of government economic policies, especially those that have substantial impact on market interest rates. We continuously monitor and conduct in-depth research on the financial market conditions and macroeconomic conditions, so that we can improve our predictions on the interest rate volatility. Based on the changing trends of market interest rates, we make timely adjustments to the size and structure of assets in response to changes in the market environment so that the maturities of our assets and liabilities can match. We have established various risk management policies for our financial market businesses. For details, please see "– Credit Risk Management – Credit Risk Management for Our Financial Market Business".

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.

Exchange Rate Risk Management

We operated a small foreign exchange business and held an insignificant amount of U.S. dollars as of the Latest Practicable Date. 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 failure to obtain sufficient funds in a timely manner or at a reasonable cost to fulfill payment obligations when due. Factors affecting our liquidity include changes in the maturity profiles of our assets and liabilities and the monetary policies of the PBoC, such as changes in the statutory deposit reserve ratio. We are exposed to liquidity risks primarily in our lending, trading and investment activities and in managing our liquidity position. The primary objective of our liquidity risk management is to ensure the availability of adequate funding at all times to fulfill our payment obligations and fund our business operation in a timely manner.

We manage liquidity risk through monitoring the maturities of our assets and liabilities to ensure we have sufficient funds in a timely manner or at a reasonable cost to fulfill our payment obligations as they become due. We strictly follow relevant PRC regulations such as the CBRC's announcement of the Administrative Measures for the Liquidity Risk Management of Commercial Banks (《商業銀行流動性風險管理辦法》) and 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)》). We observe the strict regulatory requirements, closely monitor liquidity ratios, formulate crisis management plans, enhance liquidity risk management and regularly apply stress tests. The major measures we have taken to manage liquidity risk include:

- Establishing a liquidity risk management system and an organizational structure where our Board of Directors bears the ultimate responsibilities for our liquidity risk management and our senior management is responsible for formulating liquidity risk management strategies and policies;

- Conducting analysis on source and utilization of funds, actively seeking quality source of funds, including the interbank business;

- Conducting liquidity risk assessment before launching new products or business lines;

- Centralizing cash flow management and position management; monitoring large fund flows and allocation of funds to increase returns on assets;

- Improving the liquidity management system and strictly implementing the limit control, monitoring liquidity risk through multiple key indicators, such as surplus deposit reserve ratio, liquidity ratio, liquidity gap ratio and deposits from top ten customers to total deposits ratio;

- Conducting periodic cash flow analysis and quarterly liquidity stress tests to identify potential liquidity risks and develop risk mitigation measures;

- Reviewing and updating internal strategies and policies in relation to liquidity risk on an annual basis to satisfy liquidity requirements for any contingency; and

- Formulating a liquidity risk contingency plan to satisfy liquidity demand for any contingency, such as default or sudden bankruptcy of counterparties. We closely monitor our liquidity risks and make routine liquidity assessment for the management's review. Upon occurrence of potential liquidity risks, we would, according to the severity of relevant situations, take corresponding measures.

OPERATIONAL RISK MANAGEMENT

Operational risk is the risk of losses arising from inadequate or defective internal procedures, personnel and information systems, or external events. The primary operational risks we are exposed to include internal and external frauds, misconduct of employees, security failure, business interruptions, information system breakdown, and defects in the execution and settlement of transactions and business process management. Our Legal and Compliance Department at the head office takes the lead in organizing the corresponding departments, branches, and sub-branches in managing and controlling our operational risks.

Principles of Our Management of Operational Risks

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. In managing our operational risks, we follow the key principles below: (i) effectiveness: which requires our operational risk management policies to be fully implemented and each of our employees to be bound by our internal control measures; (ii) comprehensiveness, which requires our operational risk management to cover each employee in every department and each procedure in every business operation; (iii) uniformity, which requires that we adopt consistent procedures and tools to identity, evaluate, manage and report bank-wide operational risks; (iv) cost efficiency, which requires us to identify and focus on significant risks to control the cost of operational risk management; (v) prudence, which requires us to prioritize internal control and risk prevention in conducting new business activities; and (vi) progressiveness, which requires us to steadily adjust and improve management of operational risks in observance of prevailing economic and regulatory requirements.

Three Lines of Defense

While the Board of Directors is ultimately responsible for our operational risk management, the senior management leads our day-to-day operational risk management. We have established three lines of defense against operational risks. The first line of defense is formed by the various business departments at our head office, our branches, and sub-branches. The second line of defense consists of our Legal and Compliance Department, who takes the lead in organizing and supervising the operational risk management work implemented by our business departments and other relevant departments. The third line of defense is constituted by our Audit Department, which is responsible for conducting independent valuation of our operational risk management system and its implementation and monitoring the effectiveness of our operational risk management policies.

Standardized Management of Policies and Operational Procedures

We continue to optimize our policies and operational procedures, and conduct inspections and monitoring on key control points. We have an operational risk management mechanism covering our business processes in our head office, branches and sub-branches. For instance, we have a set of operational manuals that set forth detailed operational procedures for each position. These procedures cover, among others, credit review and approval, loan disbursement and post-disbursement management. We provide a continuous training scheme to strengthen our employees' skills and require all our employees to strictly follow these operational procedures in their daily work.

Bottom-Up Operational Risk Reporting System

We have established a bottom-up operational risk reporting system, requiring routine reports on our daily operational risk monitoring status and immediate report on significant operational risk incidents. Each department, branch and sub-branch should submit regular reports on operational risk analysis to the Legal and Compliance Department at the head office, who will submit relevant reports to the senior management and the Risk Management Department for consolidation and make further reports to the Board of Directors and the Board of Supervisors. Significant operational risk incidents should be reported on a case-by-case basis, and in principle, level by level. In case of an emergency, significant operational risk incidents may be reported directly to a higher level. Significant operational risk issues identified in the routine self-inspection or special inspection of departments at the head office should be reported in time to the respective department heads and Legal and Compliance Department. Upon the receipt of a report, the Legal and Compliance Department should make promptly report to the senior management team and the Risk Management Department.

Standardized Supervision and Inspection Mechanism

We have formulated bank-wide inspection plans on internal control and compliance. Based on the regulatory requirements and our actual situation, we organize all business lines to conduct inspections on the internal control, compliance and operational risks that may arise from the key business procedures and links as well as our employees' abnormal behaviors, to effectively reduce potential operational risks and compliance risks.

Measures to Further Improve Our Operational Risk Management

We seek to further improve our operational risk management through the following measures:

- Strictly separating the responsibilities of the front, middle and back offices and optimizing operational procedures and risk control procedures;

- Establishing and improving an operational risk evaluation mechanism for new businesses, new products and new systems, and optimizing the relevant policies, procedures and systems based on the evaluation results;

- Establishing key indicator database for operational risks for all business lines to strengthen the base for dynamic operational risk monitoring and risk mitigation measures;

- Strengthening the compliance awareness for our employees through continuous training, on-site inspections and off-site monitoring;

- Issuing timely risk alerts for risk incidents, effectively evaluating and handling risk incidents, and continuously improving operational risk management system; and

- Strengthening three lines of defense through internal auditing.

Legal and Compliance Risk Management

We have established a series of regimes and measures to manage and control our exposure to legal and compliance risks, including a establishing a comprehensive IT system that enables us to monitor and manage our operational risks, compliance risks and internal control matters through an integrated platform. In particular, we run a database where we store and process key information relating to past and ongoing regulatory inspections, so that we can better evaluate the strengths and weaknesses within our operations and carry out rectification measures in an efficient manner.

Legal Risk

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 and Compliance Department at the head office and the corresponding departments at the branch level are responsible for management of our legal risk. We carry out legal risk management mainly through the following measures:

- Implementing the legal review system. We require the contracts for all types of businesses bank-wide to be submitted to our Legal and Compliance Department for legal review, and to be used only after obtaining its legal opinion. We conduct legal review of our businesses to prevent legal risks and ensure the legality of our operational activities.

- Formulating form agreements. We formulate form agreements for frequent operational activities and use them in bank-wide businesses to reduce legal risks.

- Strengthening litigation management. Our head office centralizes the bank-wide litigation management of cases where amounts in dispute exceed RMB1.0 million. We study and discuss the action plans upon litigation, formulate internal procedures relating to litigation management, and maintain a database of qualified law firms we may choose from, so as to enhance our case management capability.

- Periodic legal training. We conduct multiple bank-wide legal training every year to enhance the legal knowledge and risk awareness of our personnel.

- Legal risk alert system. For common legal risks in our business operations, we publish legal risk alerts to remind our employees to prevent and reduce the occurrence of legal risk incidents.

Compliance Risk

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 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 policies, whereas the Legal and Compliance Department at our head office and the corresponding departments at the branch level 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 resource allocation. We hire sufficient compliance management personnel with appropriate qualification, experience and expertise to provide adequate support to the compliance work in each business line and branch.

- Compliance management plans. The Legal and Compliance Department at our head office makes annual compliance management plans and implements such plans after the approval of the senior management at the head office. The corresponding compliance departments at the branch levels adjust and optimize these plans based on local regulatory requirements and other situations and implement these plans after the approval of the senior management at the branches.

- Identification and evaluation of the compliance risk. We conduct periodic analysis on business procedures and identify and confirm the compliance risk points. We conduct periodic and special evaluations on the risks identified, assessing the likelihood and significance of the damages caused by legal sanctions and regulatory penalties. We also conduct special evaluation in certain conditions, such as development of new products or businesses, occurrence of significant risk accidents, material changes of business procedures and changes in the regulatory environment.

- Monitoring and control of compliance risk. We conduct compliance review on each business line and each branch and sub-branch. Our compliance departments provide bank-wide compliance consultation relating to relevant domestic and international laws, regulations and internal policies. We issue compliance risk notifications when certain conditions are met.

- Compliance risk reports. Each business department and branch reports compliance risk-related information to the person in charge of such business department or branch, and to the Legal and Compliance Department at our head office simultaneously. The Legal and Compliance Department at our head office consolidates this information and report to the senior management.

- Compliance performance review, accountability and reporting. We have incorporated compliance into our performance review system to emphasize its importance. We have established a compliance accountability and reporting mechanism to encourage our employees to participate in compliance risk management.

- Compliance culture. We believe that compliance creates value for us and we are dedicated to cultivating a compliance culture among all of our employees. In light of the increasingly strict regulatory requirements imposed by the banking regulatory authorities, we strengthen our internal compliance checks and inspections for relevant businesses; evaluate and optimize the operational policies and procedures for relevant businesses; increase the proportion of compliance in the evaluation mechanism; adopt strict accountability internally; and conduct compliance training. We strengthen our compliance management and cultivate a compliance culture.

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 system with specific work procedures. We have clearly defined the duties and responsibilities of the Board of Directors, the Board of Supervisors, the senior management, the leading group of anti-money laundering, our various departments and our branches and sub-branches at all levels. The Legal and Compliance Department in our head office takes the lead on anti-money laundering work, and is primarily responsible for leading the formulation of relevant internal rules, plans, and the construction of our bank-wide anti-money laundering system, as well as assisting relevant anti-money laundering administrative authority or its detached offices in conducting anti-money laundering investigation.

We have developed internal policies and procedures with respect to anti-money laundering which are primarily relating to customer due diligence, transaction record keeping, suspected terrorism financing activities, anti-money laundering classification, and large and suspicious transaction reporting. We systematically conducted customer due diligence and collected relevant information and transaction records pursuant to applicable laws and regulations and our internal policies. We have developed an anti-money laundering system, which enables us to effectively identify, evaluate, monitor, control and report anti-money laundering risks. We also optimize the system and improve our model for identifying suspicious transactions on a continuous basis in order to enhance our ability to report large-amount and suspicious transactions. We provide frequent training to our employees to assist them to understand the latest development about domestic and international anti-money laundering laws.

Based on our internal rules and policies, we classify our customers into five levels based on their money laundering risk. For newly-acquired customers who have a newly established business relationship with us, we review the customer information and classify their risk levels. We continuously monitor changes in the customer's situation and their transactional records and adjust their risk levels as appropriate. For high risk customers, we conduct identification recognition. We focus on analyzing their source of funds, use of funds, financial condition, operational status, controlling shareholders and controlling persons. We also conduct closer monitoring on their transactional details through our core business system or anti-money laundering system.

We have established a management system for large and suspicious transaction reporting, and has formulated independent monitoring rules and models according to the requirements set forth by the regulatory authorities. We submit suspicious transaction reports which fulfill the requirements and have gone through the artificial analysis to the Anti-money Laundering Monitoring Center of PBoC, and we timely file the key suspicious transaction reports to the local PBoC representative.

INFORMATION TECHNOLOGY RISK MANAGEMENT

Information technology risks include operational risk, reputational risk, legal risk and other types of risks caused by natural factors, human errors, technical loopholes and management failure arising from our use of information technology. We have set up Information Technology Management Committee and our Legal and Compliance Department and Information Technology Department at our head office are responsible for managing our information technology risks. We operate our business through an effective risk management system that can identify, assess and monitor information technology risks. We strive to continuously improve our information technology infrastructure and our information technology management system in line with the national standards and regulatory requirements.

Information Security Management

We have established a complete organizational 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 series 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 deal with any red flag issues promptly.

We rely on the performance of our information technology systems for our business operations. As such, disruptions of our information technology may severely damage our business operations. We have established a self-assessment mechanism for information technology risk control which requires each of our departments to identify, register and evaluate the risks relating to information technology and take proper mitigation measures. We also closely monitor key risk indicators and issue risk alerts at the early stage. 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 part of our business continuity management measures, we have established a disaster backup and recovery system comprising two local active application-level centers and one off-site data-level disaster recovery center, 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 regarding the potential breakdown of our information system to ensure the continuity of our operations. We conduct periodic disaster drills for business continuity for our important businesses.

Information Technology Audit

We carry out comprehensive internal audits over our information technology risk management at least once every three years to safeguard the implementation of our various risk management measures effectively. Our Audit Department formulates, implements and adjusts internal audit plans, inspects and evaluates the comprehensiveness and effectiveness of our information technology and internal control systems, and carries out internal audit work pursuant to the audit plans. We may also engage external institutions to conduct external audits on our hardware, software, files, and data in order to further identify existing risks associated with our information technology system.

The CBIRC or its agencies may, where necessary, designate qualified external audit institutions to conduct audit upon our information technology. Their authorized audit reports shall take the same effect as those from the CBIRC or its agencies upon review and approval by the CBIRC. We are required to further propose and implement rectification measures within the time prescribed based on said audit reports.

REPUTATIONAL RISK MANAGEMENT

Reputational risk refers to the risk of negative publicity and 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, identify, report, control, and assess our reputational risk, and at the same time manage our reputational risk emergency handling, and reduce to the extent possible any loss and negative impact we may suffer due to such 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. Our Office of the Board of Directors is responsible for undertaking management of overall reputational risks, including establishing a bank-wide reputational risk management system, formulating basic internal policies and developing relevant risk identification, evaluation, control, monitoring and reporting system. We have established a team comprising leaders from various departments at our head office to deal with the daily management of reputational risk. We have also set up reputation risk incidents emergency response teams at our branches and sub-branches, so that the head office can be promptly informed upon the occurrence of material and urgent incidents and take appropriate actions accordingly.

In addition, we proactively utilize the press communications and other publication platforms to promote our positive image and corporate values such as those reflecting our continued fulfillment of social responsibilities. Meanwhile, we actively collect, organize, and analyze information in relation to our reputation through newspapers, television, online media and other channels. Occasionally, we engage third-party professionals who offer their advice on the proper handling of specific incidents.

STRATEGIC RISK MANAGEMENT

We actively evaluate and adjust our development strategy to enhance our adaptability in the face of unexpected market changes. Our Office of Strategic Development under the Board of Directors is responsible for managing our strategic risks. We control our strategic risk by (i) identifying and formulating risk factors through cooperation between the Office of Strategic Development and the Risk Management Department; (ii) conducting regular review and study on prevailing market conditions and our business operation status to timely identify potential risks; (iii) making timely adjustment to the strategies and relevant implementation measures accordingly; and (iv) closely monitoring the implementation of the strategies and provide necessary assistance.

INTERNAL AUDIT

We consider internal audit essential to the sustainable development of our business operations. Our Audit Department shall strictly follow the principles of independence and objectivity throughout our internal audit work. We have established an independent and vertical internal audit system that mainly comprises of the Board of Directors, the Audit Committee, and the Audit Department. The Board of Directors undertakes ultimate responsibility to ensure the independence and effectiveness of our internal audit. The Audit Committee guides, evaluates and assesses our internal audit work while our Audit Department carries out internal auditing at both the head office and the branch level.

Our Audit Department formulates internal policies and annual audit plans based on regulatory requirements as well as our operation, management and business profile, and carries out audit work strictly in accordance with the annual audit plans after such plans are approved by the Board of Directors. We conduct both on-site inspections and off-site monitoring during routine audits on various departments and their operational and management activities. We also conduct audits on our exposures to various risks such as credit risk, market risk, operational risk and information technology risk. For the issues or deficiencies identified in audits, the Audit Department gives timely notification to the relevant departments and advises on the implementation of effective rectification measures.

RISK MANAGEMENT IN RELATION TO OUR QINGXU VILLAGE AND TOWNSHIP BANK

Qingxu Village and Township Bank is an independent legal entity regulated by the CBIRC. In compliance with the requirements of the CBIRC, our Bank respects its independent operation and strive to maintain its autonomous operation in daily risk management. In respect of risk management work, our Bank sees this village and township bank as its own branch.

Our Bank conducts risk management work in relation to this village and township bank according to Notice on Issuing the Guidelines for the Consolidated Management and Supervision of Commercial Banks (《關於印發商業銀行並表管理與監管指引的通知》) issued by the CBRC. Based on the foregoing, our Bank allows the village and township bank to make its own business decisions and maintain its own information technology, risk management, internal control and financial reporting systems.

Although our Bank does not directly participate in its business operations, it provides overall strategic guidance, monitor the implementation of operating policies and provide necessary training of significance in their development. Our Bank requires Qingxu Village and Township Bank to establish a comprehensive risk management system that contains an independent tiered credit approval system with credit approval committees, and to have designated persons for loan disbursement and post-disbursement management. From time to time, the risk management-related departments of our Bank's head office provide risk management advice to the village and township bank and organize professional training for its employees.

While the village and township bank performs its respective daily risk management work on an independent basis, our Bank closely monitors its loan books and loan accounts. In respect of post-disbursement management, the village and township bank classifies loans it extends into five levels in accordance with the CBIRC requirements on the five-level classification of loans. Our Bank also conducts dynamic monitoring of the default rates and default periods of the village and township bank and issue risk alerts when the quality of loans is at risk. From time to time, our Bank randomly inspects the default rates and default periods of the loans of the village and township bank. For more details on our risk management and internal control measures in relation to Qingxu Village and Township Bank, please see "Business – Distribution Network – Qingxu Village and Township Bank".

RISK MANAGEMENT IN RELATION TO JINSHANG CONSUMER FINANCE

Jinshang Consumer Finance, like Qingxu Village and Township Bank, is an independent legal entity regulated by the CBIRC. In compliance with the requirements of the CBIRC, we respect the independent operation of Jinshang Consumer Finance and maintain its autonomous operation. We guide and supervise the material aspects of the operations, finance, investments, compliance and human resources of Jinshang Consumer Finance through enforcing our rights as its shareholder.

One of Jinshang Consumer Finance's businesses involves granting personal loans to meet consumers' short-term financing needs, such as those for rental payments or car-related consumption payments. Jinshang Consumer Finance cooperates with various business partners, such as apartment management companies, who refer consumers with related financing needs to Jinshang Consumer Finance. Such referrals have expanded Jinshang Consumer Finance's customer base, enabling it to better capture market opportunities in a more effective and impactful manner.

Jinshang Consumer Finance has established a risk management system to manage potential credit risks and reputational risks arising from its cooperative relationship with business partners, comprising (i) credit review of each applicant for the relevant loan products, (ii) a credit approval procedure, and (iii) post-disbursement monitoring on the repayment status of the relevant loans. Furthermore, in line with its internal policies such as the "Jinshang Consumer Finance Management Guidelines for Cooperating Institutions" (《晉商消費金融有限公司合作機構管理辦法》), Jinshang Consumer Finance carries out due diligence investigations before and after entering into a cooperative relationship with a business partner, which entail (1) a two-person review on the candidate's financial status, business operations, and stability of its management team, (2) examination on the candidate's background and corporate documents to ascertain its solvency, legality and material compliance with the applicable laws and regulations, and (3) periodic and ad hoc inspections on the business partners after fund disbursement to monitor their financial condition, operational status and the amount of complaints or disputes they may be involved in.

For more details on Jinshang Consumer Finance's business and financial information, please see "Business – Distribution Network – Consumer Finance Company".

CONNECTED TRANSACTIONS

Upon the 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
SSCIO and its associates including but not limited to:	As of the Latest Practicable Date, SSCIO, a substantial Shareholder, indirectly held 28.89% equity interest in our Bank. SSCIO will continue to be a substantial Shareholder of our Bank following the Listing and therefore will become a connected person of our Bank.
Shanxi Coking Coal Group Zhongyuan Trading Co., Ltd. (山西焦煤集團中源物貿有限責任公司) ("**Zhongyuan Trading**")	As of the Latest Practicable Date, Zhongyuan Trading is an indirectly wholly-owned subsidiary of SSCIO and an associate of SSCIO and will become a connected person of our Bank following the Listing.
Shanxi Tourism Investment Holding Group Co., Ltd. (山西省旅遊投資控股集團有限公司) ("**Shanxi Tourism Investment**")	As of the Latest Practicable Date, Shanxi Tourism Investment is an indirectly wholly-owned subsidiary of SSCIO and an associate of SSCIO and will become a connected person of our Bank following the Listing.
Shanxi Huayuan Hotel Co., Ltd. (山西華苑賓館有限公司) ("**Huayuan Hotel**")	As of the Latest Practicable Date, Huayuan Hotel is an indirectly wholly-owned subsidiary of SSCIO and an associate of SSCIO and will become a connected person of our Bank following the Listing.

Name	Connected relationship
Shanxi Financial Holding Group Co., Ltd. (山西金融投資控股集團有限公司) and its associates including but not limited to:	As of the Latest Practicable Date, Shanxi Financial Holding Group Co., Ltd. ("**Shanxi Financial Holding**"), a substantial Shareholder, held 14.69% equity interest in our Bank. Shanxi Financial Holding will continue to be a substantial Shareholder following the Listing and therefore will become a connected person of our Bank.
Shanxi Securities Co., Ltd. (山西證券股份有限公司) ("**Shanxi Securities**")	As of the Latest Practicable Date, Shanxi Financial Holding held 30.59% equity interest in Shanxi Securities. Thus, Shanxi Securities is an associate of Shanxi Financial Holding and will become a connected person of our Bank following the Listing.
Shanxi Trust Co., Ltd. (山西信託股份有限公司) ("**Shanxi Trust**")	As of the Latest Practicable Date, Shanxi Financial Holding held 90.7% equity interest in Shanxi Trust. Thus, Shanxi Trust is an associate of Shanxi Financial Holding and will become a connected person of our Bank following the Listing.
Shanxi Equity Exchange Center Co., Ltd. (山西股權交易中心有限公司) ("**Shanxi Equity Exchange**")	As of the Latest Practicable Date, Shanxi Financial Holding held 70.0% equity interest in Shanxi Equity Exchange. Thus, Shanxi Equity Exchange is an associate of Shanxi Financial Holding and will become a connected person of our Bank following the Listing.
Huaneng Capital Service Co., Ltd. (華能資本服務有限公司) and its associates including but not limited to:	As of the Latest Practicable Date, Huaneng Capital Service Co., Ltd. ("**Huaneng Capital Service**"), a substantial Shareholder of our Bank, held 12.33% equity interest in our Bank. Huaneng Capital Service will continue to be a substantial Shareholder of our Bank following the Listing and therefore a connected person of our Bank.
Great Wall Securities Co., Ltd. (長城證券股份有限公司) ("**Great Wall Securities**")	As of the Latest Practicable Date, Huaneng Capital Service held 46.38% equity interest in Great Wall Securities. Thus, Great Wall Securities is an associate of Huaneng Capital Service and will become a connected person of our Bank following the Listing.

Name	Connected relationship
Huaneng Guicheng Trust Corp., Ltd. (華能貴誠信託有限公司) ("**Huaneng Guicheng Trust**")	As of the Latest Practicable Date, Huaneng Capital Service held 67.92% equity interest in Huaneng Guicheng Trust. Thus, Huaneng Guicheng Trust is an associate of Huaneng Capital Service and will become a connected person of our Bank following the Listing.

FULLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

Our Bank is a city 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 and/or their respective associates). Set forth below are details of such connected transactions between us and our connected persons. These transactions are entered into on normal commercial terms (or commercial terms that are better to 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.

(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 guarantee) in the ordinary and usual course of business to certain of our connected persons on normal commercial terms (or commercial terms that are better to 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 to 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 to 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 and guarantees from connected persons

We take deposits from certain of our connected persons and also receive guarantees provided by certain of our connected persons in relation to loans and other credit facilities extended by us to our customers in the ordinary and usual course of business at normal interest rates and on normal commercial terms (or commercial terms that are better to us). We expect that our connected persons will continue to place deposits with us and/or provide guarantees in relation to loans and other credit facilities extended by us to our customers 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 to us) with reference to prevailing market interest rates and not secured by our assets. The guarantees are also provided to us by our connected persons on normal commercial terms. 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 or guarantees on normal commercial terms (or commercial terms that are better to 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 (mainly including settlement services, bank card 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 to 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 to 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) Asset management/trust plan services provided by associates of Shanxi Financial Holding

Asset management agreement with Shanxi Securities

We entered into an asset management agreement with Shanxi Securities on July 16, 2016 ("**Shanxi Securities Asset Management Agreement**"). Under the arrangements with Shanxi Securities, we invest our funds in the asset management schemes managed by Shanxi Securities. To control the risk exposure of our Bank, we also participate in the management of the assets of the asset management schemes. As the scheme manager, Shanxi Securities charges our Bank a fixed fee at a rate of 0.05%. The rate of the management fees is determined through arm's length negotiation by taking into account various factors, mainly including the prevailing management fee rate of comparable asset management schemes available on the market and the estimated maximum annualized return on investment offered by Shanxi Securities.

The Shanxi Securities Asset Management Agreement has a term of five years. It was entered into in the ordinary and usual course of our business on normal commercial terms (or commercial terms that are better to us). We may be in breach of the Shanxi Securities Asset Management Agreement if the term is to be adjusted to three years in accordance with the requirements of the Listing Rules. Our Directors are of the view that (i) the investment in asset management schemes pursuant to the Shanxi Securities Asset Management Agreement is a part of our financial market business; and (ii) it is normal business practice for asset management agreements of this type to be of a term longer than three years. The Joint Sponsors concur with the view of our Directors.

Trust plan agreement with Shanxi Trust

We entered into a trust plan agreement with Shanxi Trust in December 2018 ("**ST Trust Plan Agreement**"). As the settlor, we use our own funds as the trust property, while Shanxi Trust, serving as the trustee of the trust schemes, sets up specific service management trust schemes. As the trustee under the relevant trust schemes, Shanxi Trust charges our Bank trust fees, which is calculated at a fixed rate of 0.5%.

The ST Trust Plan Agreement has a term of five years. It was entered into in the ordinary and usual course of our business on normal commercial terms (or commercial terms that are better to us). We may be in breach of the ST Trust Plan Agreement if the term is to be adjusted to three years in accordance with the requirements of the Listing Rules. Our Directors are of the view that (i) the establishment of trusts pursuant to the ST Trust Plan Agreement is a part of our financial market business; and (ii) it is normal business practice for trust plan agreements of this type to be of a term longer than three years. The Joint Sponsors concur with the view of our Directors.

The transactions contemplated under Shanxi Securities Asset Management Agreement and ST Trust Plan Agreement 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 transactions contemplated under Shanxi Securities Asset Management Agreement and ST Trust Plan Agreement 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) Property leasing from connected persons

Our Bank entered into a property leasing agreement with Zhongyuan Trading, pursuant to which Zhongyuan Trading leased a property located in Taiyuan, Shanxi Province, the PRC, to our Bank as its office space with a leasing term from January 1, 2018 to December 31, 2019 and at an annual rent of RMB550,000.

Our Bank entered into a property leasing agreement with Shanxi Tourism Investment, pursuant to which Shanxi Tourism Investment leased a property located in Taiyuan, Shanxi Province, the PRC, to our Bank as its office space with a leasing term from December 21, 2018 to December 20, 2020 at an annual rent of RMB703,033.8.

The above property leasing 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 above property leasing agreements constitutes *de minimis* transactions, and therefore is exempt from the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Rule 14A.76(1) of the Listing Rules.

(vi) Procurement of consumer goods and services from connected persons

Utilities purchased from connected persons

We purchased utilities (including electricity, heat and telephone services), being consumer goods or services, for business operations in certain locations from several connected persons ("**Utilities Providers**") which are providers of such utilities in their ordinary and usual course of business and we pay utilities fees to them in accordance with the rates prescribed by PRC Government/with reference to prevailing market rates. The purchases of such utilities are on normal commercial terms. Each of the Utilities Providers is an indirectly owned subsidiary of SSCIO and thus an associate of SSCIO and will become a connected person of our Bank following the completion of the Listing. We expect that the purchases of such utilities will continue and constitute fully exempt continuing connected transactions and therefore they are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Rule 14A.97 of the Listing Rules.

Catering services provided by Huayuan Hotel

We entered into a catering services agreement with Huayuan Hotel with a term from March 1, 2018 to June 30, 2019. Pursuant to the catering services agreement, Huayuan Hotel provides catering services, being consumer services, to our Bank, in its ordinary and usual course of business and we pay catering fees with reference to prevailing market rates. The catering services are on normal commercial terms that are comparable to, or no less favorable to us than those available from independent third parties. Therefore, the transactions contemplated under the catering services agreement with Huayuan Hotel will constitute fully exempt continuing connected transactions and therefore are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Rule 14A.97 of the Listing Rules.

(vii) Equity custodian services provided by Shanxi Equity Exchange

We entered into an equity custodian agreement and a supplemental agreement (collectively the "**Equity Custodian Agreement**") with Shanxi Equity Exchange in January 2018, pursuant to which we entrust Shanxi Equity Exchange to manage our shares for a non-refundable initial registration fees of RMB326,800.0 (tax inclusive) and an annual service fees of RMB115,000 (tax inclusive). The Equity Custodian Agreement has an initial term of three years commencing on January 10, 2018, and is eligible for an automatic extension of three years.

The Equity Custodian Agreement is negotiated on arm's length basis and is conducted on normal commercial terms. As the highest applicable percentage ratios of the above transaction is expected to be, on annual basis, less than 0.1%, the continuing transaction contemplated under the Equity Custodian Agreements constitute *de minimis* transaction, and therefore is exempt from the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Rule 14A.76(1) of the Listing Rules.

ONE-OFF TRANSACTIONS WITH CONNECTED PERSON

Purchases of fund products from Shanxi Securities

In the ordinary and usual course of business, we purchased open-ended fund products issued by Shanxi Securities ("**Shanxi Securities Fund Products**") in August 2016, October 2016, November 2016 and September 2018 with a total purchase amount of RMB970.0 million. We pay management fees to the fund manager Shanxi Securities which are deducted directly from the fund assets on a monthly basis. Although Shanxi Securities will continue to charge management fees for the management of the fund assets pursuant to the terms in the relevant fund contract, the Shanxi Securities Fund Products were purchased by the Bank before the Listing and therefore, each of the purchases of Shanxi Securities Fund Products constitutes a one-off transaction of the Bank prior to the Listing.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We set out below the details of the continuing connected transactions for the Bank which are subject to the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

1. Participation in Asset Management Schemes and Trust Schemes issued by associates of Huaneng Capital Service

In the ordinary and usual course of business, we participate in the asset management schemes launched by Great Wall Securities ("**Great Wall Securities Asset Management Schemes**") during the Track Record Period and expects to continue to participate in such asset management schemes and also to participate in the collective trust schemes launched by Huaneng Guicheng Trust ("**Huaneng Guicheng Trust Schemes**"). To comply with the requirements of the Listing Rules, we entered into a framework agreement (the "**Huaneng Framework Agreement**") with Huaneng Capital Service on June 24, 2019 to cover both the Great Wall Securities Asset Management Schemes and Huaneng Guicheng Trust Schemes. The Huaneng Framework Agreement will be valid until December 31, 2021, unless terminated earlier in accordance with the agreement.

Principal terms:

The principal terms of Great Wall Securities Asset Management Schemes are set out as follows:

- Great Wall Securities shall independently operate and manage the assets in accordance with the terms and conditions of the asset management schemes subject to the supervision of the asset custodian;

- the historical annualized return on investment of the assets management schemes ranges from 5.1% to 5.7%, the management fee rate ranges from 0.2% to 0.3% and the annual custody fee rate payable by the Bank to the asset custodian ranges from 0.02% to 0.1%;

- the term of such asset management schemes may range from six months to three years; and

- Great Wall Securities shall issue and publish asset management reports about the portfolio of the investment assets, net value of the assets, fees and investment return in accordance with the assets management schemes.

The principal terms of Huaneng Guicheng Trust Schemes are set out as follows:

- Huaneng Guicheng Trust shall, in its own name, manage, utilize or dispose the trust property in the interest of the Bank;

- the annual trust remuneration and the annual management fee payable to the trustee shall be calculated according to the formula as provided in the relevant trust agreement at a minimum rate of 0.3% and 0.1% respectively, and the annual custody fee rate payable by the Bank to the trust custodian is 0.01%;

- the term of such trust schemes is 36 months; and

- Huaneng Guicheng Trust shall provide the Bank information relevant to the trust schemes, including but not limited to notice of establishment of trust plan, trust property management report, trust property utilization and return report.

Pricing basis:

For collective asset management schemes launched by Great Wall Securities and Huaneng Guicheng Trust Schemes, the management fees are applicable to all investors participating in such plans equally and evenly, including our Bank and any other independent third party investor participants. For single asset management schemes launched by Great Wall Securities, the management fees are at prevailing market rate based on arm's length negotiation.

Historical amounts

The table below sets out the investment amount, return of investment and the management fees paid by the Bank under the Great Wall Securities Asset Management Schemes for the following years.

	Historical amounts		
	For the year ended December 31,		
	2016	2017	2018
	(in the thousands of RMB)		
Investment amount	–	30,000.0	452,610.0
Return of investment	–	872.4	2,075.3
Management fee paid by the Bank	–	45.1	109.5

Annual caps

The table below sets out the expected investment amount, return of investment and management fees and trust remuneration (in connection with Huaneng Guicheng Trust Schemes only) to be paid by the Bank under the Great Wall Securities Asset Management Schemes and Huaneng Guicheng Trust Schemes for the following years.

		Annual caps		
		For the year ending December 31,		
		2019	**2020**	**2021**
		(in the thousands of RMB)		
Investment amount	Great Wall Securities Asset Management Schemes	1,679,893.0	2,183,860.9	2,839,019.2
	Huaneng Guicheng Trust Schemes	1,000,000.0	1,500,000.0	2,000,000.0
	Total	**2,679,893.0**	**3,683,860.9**	**4,839,019.2**
Return of investment	Great Wall Securities Asset Management Schemes	75,595.2	102,641.5	133,433.9
	Huaneng Guicheng Trust Schemes	45,000.0	70,500.0	94,000.0
	Total	**120,595.2**	**173,141.5**	**227,433.9**
Management fee and trust remuneration (in connection with Huaneng Guicheng Trust Schemes only) to be paid by the Bank	Great Wall Securities Asset Management Schemes	4,185.7	5,441.4	7,073.9
	Huaneng Guicheng Trust Schemes	4,000.0	6,000.0	8,000.0
	Total	**8,185.7**	**11,441.4**	**15,073.9**

The investment amount under the Great Wall Securities Asset Management Schemes for the three months ended March 31, 2019 was RMB964.9 million.

When estimating the annual caps of the investment amount in such asset management schemes and trust schemes and return of investment, our Directors have taken into account, among others, the following factors:

- the expected increased volume of the asset management products to be launched by the Bank in 2019 as the investment amount are all derived from the Bank's asset management products, which is due to the fact that the Bank has developed new asset management products in compliance with 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) promulgated on April 27, 2018 (the "**April 27 Guideline**"). The overall scale of asset management business of the Bank had declined significantly due to the April 27 Guideline. For the years ended December 31, 2016, 2017 and 2018, the volume of relevant asset management products issued by the Bank amounted to RMB76,335.4 million, RMB72,447.4 million and RMB58,262.2 million respectively;

- the unavailability of asset management products which are in compliance with the April 27 Guideline by certain asset management institutions with existing relationship with the Bank and the availability of new products (as the ones under the Great Wall Securities Asset Management Schemes and the Huaneng Guicheng

Trust Schemes) that are in compliance with the April 27 Guideline and of relatively low risk as they primarily invest in assets with fixed income as devised by Great Wall Securities and Huaneng Guicheng Trust, which will be our key partners in asset management business;

- the effect of cumulative calculation of investment amount due to short holding period of investment in the products under the Great Wall Securities Asset Management Schemes and the Huaneng Guicheng Trust Schemes by the Bank;

- an expected annualized growth rate of 30%-50% of the investment amounts for the years ending December 31, 2020 and 2021 based on our referential historical transactions amounts with counterparties that are comparable to Great Wall Securities and Huaneng Guicheng Trust, which experienced growth notwithstanding the declined volume of asset management products launched by the Bank during the Track Record Period. Such counterparties are comparable to Great Wall Securities and Huaneng Guicheng Trust mainly in terms of (i) arrangements under relevant asset management schemes where the counterparties as asset managers conduct investment management on a discretionary basis and invest in standardized underlying assets such as bonds and medium-term notes; and (ii) being the Bank's key partners in asset management business upon the Bank's evaluation of their asset management capability, size of assets under management, smoothness of business cooperation and by reference to other indicators such as level of safety of principal and record of regulatory compliance; and

- the expected annualized return on investment of the assets management schemes and trust schemes ranging from 4.5% to 4.7% considering the loose monetary policies.

The annual caps of the management fees and trust remuneration (in connection with Huaneng Guicheng Trust Schemes only) are calculated based on the investment amount and the management fee/trust remuneration (if applicable) rate as published by Great Wall Securities and Huaneng Guicheng Trust.

2. Commercial banking services and products provided in the ordinary and usual course of business – fee-and commission-based products and services to SSCIO and its associates

In the ordinary and usual course of business, we provide fee-and commission-based products and services to SSCIO and its associates. To comply with the requirements of the Listing Rules, we entered into a financial products and services framework agreement (the "**SSCIO Financial Products and Services Framework Agreement**") with SSCIO on June 24, 2019. The SSCIO Financial Products and Services Framework Agreement will be valid until December 31, 2021, unless terminated earlier in accordance with the agreement.

The fee-and commission-based products and services to be provided to SSCIO and its associates after the Listing mainly include bank acceptance bills, letters of credit, debt securities distribution, debt securities underwriting, syndicated loans, direct banking services, settlement services and wealth management business.

Pricing basis

The fees and commissions of such fee-and commission-based products and services to SSCIO and its associates by us are at our normal fee standards. For such fee-and commission-based products and services, we generally charge fees and commissions at a certain rate which is also applicable to independent counterparties.

Historical amounts

The table below sets out the historical amounts of the fee-and commission-based products and services provided to SSCIO and its associates by us during the following years:

	Historical amounts		
	For the year ended December 31,		
	2016	2017	2018
	(in millions of RMB)		
Fees and commissions from the provision of fee- and commission-based products and services to SSCIO and its associates	27.1	24.1	64.9

Annual caps

The table below sets out the annual caps of the fee- and commission-based products and services:

	Annual caps		
	For the year ending December 31,		
	2019	2020	2021
	(in millions of RMB)		
Fees and commissions from the provision of fee- and commission-based products and services to SSCIO and its associates	137.0	174.8	230.0

When estimating the annual caps of the fee- and commission-based products and services to be provided to SSCIO and its associates by us, our Directors have taken into account, among others, the following factors:

- the historical amounts for the fee- and commission-based products and services which our Bank had provided to SSCIO and its associates during the years ended December 31, 2016, 2017 and 2018, and the fluctuations in the volume of these products and services during the years ended December 31, 2016, 2017 and 2018;

- the significant increase in the fees and commissions to be received from bonds distribution business as compared to 2018 due to an executed creditors' rights financing plan underwriting agreement with an associate of SSCIO in December 2018 and the expected expansion of the bonds distribution business of our Bank for the three years ending December 31, 2021;

- the expected fees and commissions from bonds underwriting business for the coming years as the Bank obtained the Class-B lead underwriter qualification for underwriting debt financing instruments issued by non-financial enterprises in February 2019;

- the significant increase in the fees and commissions from investment and financing business through the multi-functional online platform of our direct bank which generate income since 2018 and is expected to expand significantly from 2019;

- the potential growth in these businesses brought by increasing cooperation between SSCIO and its associates and us; and

- an expected annual growth rate of 15-30% in each of the years ending December 31, 2019, 2020 and 2021, based on the expected growth of some of our Bank's fee- and commission-based products and services.

IMPLICATIONS UNDER THE LISTING RULES

As the highest applicable percentage ratio based on the relevant annual caps for each of Huaneng Framework Agreement and SSCIO Financial Products and Services Framework Agreement, is expected to be more than 5%, these transactions are subject to the announcement, reporting, annual review and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

WAIVER APPLICATION

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the announcement and independent shareholders' approval requirements set out in Rules 14A.35 and 14A.36 of the Listing Rules in respect of the transactions under the Huaneng Framework Agreement and SSCIO Financial Products and Services Framework Agreement.

CONFIRMATIONS

Directors' Confirmation

Our Directors (including independent non-executive Directors) are of the view that the non-exempt continuing connected transactions set out above have been entered into and will be carried out in our ordinary and usual course of business on normal commercial terms which are fair and reasonable and in the interests of us and our Shareholders as a whole, and the proposed annual caps in respect of the non-exempt continuing connected transactions are fair and reasonable and in the interests of us and our Shareholders as a whole.

Joint Sponsors' Confirmation

After due and careful enquires, taking into account the information provided by our Bank, the Joint Sponsors are of the view that the non-exempt continuing connected transactions set out above have been entered into in the ordinary and usual course of business of the Bank on normal commercial terms which are fair and reasonable and in the interests of the Bank and its Shareholders as a whole, and the proposed annual caps in respect of the non-exempt continuing connected transactions are fair and reasonable and in the interests of the Bank and its Shareholders as a whole.

BOARD OF DIRECTORS

Our Board of Directors consists of fifteen Directors, including four executive Directors, five non-executive Directors and six independent non-executive Directors. Our Directors are 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	Time of joining our Bank	Date of appointment as a Director(1)	Position(s) held at our Bank as of the Latest Practicable Date	Responsibilities
Executive Directors					
Mr. YAN Junsheng (閻俊生)	57	August 2008	February 25, 2009 (as executive Director); December 8, 2014 (as Chairman of the Board)	Executive Director; Chairman of the Board	Responsible for the overall management, strategic planning and business development of our Bank
Mr. TANG Yiping (唐一平)	52	August 2016	February 16, 2017	Executive Director; vice chairman of the Board and president	Responsible for the daily operation and management of our Bank and in charge of the president's office
Mr. WANG Peiming (王培明)	58	May 2009	February 16, 2013	Executive Director	Participating in the strategic development of our Bank and making material business decisions
Mr. RONG Changqing (容常青)	49	May 2018	September 29, 2018	Executive Director and vice president	In charge of the legal and compliance department, retail banking department, personal credit loan assets management department, credit cards department, assets management department and small enterprises financial department
Non-executive Directors					
Mr. LI Shishan (李世山)	54	September 2016	June 21, 2017	Non-executive Director	Participating in providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank

Name	Age	Time of joining our Bank	Date of appointment as a Director[(1)]	Position(s) held at our Bank as of the Latest Practicable Date	Responsibilities
Mr. XIANG Lijun (相立軍)	42	May 2018	August 8, 2018	Non-executive Director	Participating in providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank
Mr. LIU Chenhang (劉晨行)	54	May 2018	May 4, 2018[(2)]	Non-executive Director	Participating in providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank
Mr. LI Yang (李楊)	32	May 2018	May 4, 2018[(2)]	Non-executive Director	Participating in providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank
Mr. WANG Jianjun (王建軍)	43	February 2018	August 8, 2018	Non-executive Director	Participating in providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank
Independent non-executive Directors					
Mr. JIN Haiteng (金海騰)	67	December 2015	June 5, 2017	Independent non-executive Director	Responsible for supervising and providing independent advice on the operation and management of our Bank
Mr. SUN Shihu (孫試虎)	74	December 2015	February 24, 2017	Independent non-executive Director	Responsible for supervising and providing independent advice on the operation and management of our Bank
Mr. WANG Liyan (王立彥)	62	May 2018	September 14, 2018	Independent non-executive Director	Responsible for supervising and providing independent advice on the operation and management of our Bank

Name	Age	Time of joining our Bank	Date of appointment as a Director(1)	Position(s) held at our Bank as of the Latest Practicable Date	Responsibilities
Mr. DUAN Qingshan (段青山)	61	May 2018	May 4, 2018(2)	Independent non-executive Director	Responsible for supervising and providing independent advice on the operation and management of our Bank
Mr. SAI Zhiyi (賽志毅)	50	May 2018	August 7, 2018	Independent non-executive Director	Responsible for supervising and providing independent advice on the operation and management of our Bank
Mr. YE Xiang (葉翔)	55	December 2018	December 17, 2018(2)	Independent non-executive Director	Responsible for supervising and providing independent advice on the operation and management of our Bank

Notes:

1. The date of appointment as a Director stated here represents the date on which the relevant Director obtained the qualification approval from CBIRC Shanxi Office.

2. The date of appointment as a Director for each of Mr. LIU Chenhang, Mr. LI Yang, Mr. DUAN Qingshan and Mr. YE Xiang stated here represents the date on which each of them was elected as a Director at the relevant Shareholders' general meeting of our Bank. Their qualifications of directorship are subject to the approval by CBIRC Shanxi Office.

Executive Directors

Mr. YAN Junsheng (閻俊生), aged 57, has been an executive Director since February 2009, and the chairman of the Board of Directors since December 2014. He is primarily responsible for the overall management, strategic planning and business development of the Bank.

Mr. Yan has more than 25 years of experience in banking industry. He was the candidate of the chairman of the Board of Directors from June 2014 to December 2014. From February 2009 to June 2014, Mr. Yan was the vice chairman of the Board of Directors and the president of our Bank. He worked at the preparatory team (籌備組) of our Bank from August 2008 to February 2009. Prior to joining our Bank, Mr. Yan worked at Taiyuan branch, Shanghai Pudong Development Bank Co., Ltd. (上海浦東發展銀行股份有限公司) (a company listed on the Shanghai Stock Exchange with stock code 600000) as the leader of the preparatory team (籌建負責人) from July 2003 to April 2004, and as a vice president from April 2004 to August 2008. Mr. Yan served as a vice president of Taiyuan City Commercial Bank Co., Ltd. from June 1998 to July 2003 and as a Director of Taiyuan City Commercial Bank Co., Ltd. from October 1998 to July 2003. Prior to that, Mr. Yan worked for Taiyuan Urban Credit Cooperative Union

(太原市城市信用合作社聯合社) as the deputy director (副主任) from July 1993 to June 1998 and as the deputy managing director (副理事長) and the manager of the operation department (營業部經理) from January 1997 to June 1998. From January 1997 to June 1998, he was also the deputy director of the preparatory team (籌備組) of Taiyuan City Commercial Bank Co., Ltd.

Mr. Yan obtained an executive master of business administration degree from Shanghai University of Finance and Economics (上海財經大學) in Shanghai, the PRC, in June 2006. He is a senior economist granted by Department of Human Resources of Shanxi Province (山西省人事廳) in August 2001.

Mr. TANG Yiping (唐一平), aged 52, has been an executive Director, the vice chairman of the Board of Directors and our president since February 2017. He is primarily responsible for the daily operation and management of our Bank and in charge of the president's office.

Mr. Tang has over 26 years of experience in banking industry. He joined our Bank in August 2016. Prior to joining our Bank, Mr. Tang worked at Agricultural Bank of China Limited (中國農業銀行股份有限公司) ("**ABC**") (a company listed on the Shanghai Stock Exchange with stock code 601288, and on the Hong Kong Stock Exchange with stock code 1288) for over 24 years. He was the leader of the preparatory team of Moscow branch of ABC from February 2013 to March 2015 and then served as the director and the general manager of ABC (Moscow) Ltd. (中國農業銀行(莫斯科)有限公司) from March 2015 to August 2016. Mr. Tang worked at ABC Shenzhen branch and served as the principal and then the general manager of human resources department from December 2008 to September 2009, and as a vice president from September 2009 to February 2013. Mr. Tang served as the president of ABC Longgang sub-branch (龍崗支行) in Shenzhen from March 2006 to June 2006 and the president of ABC Overseas Chinese Town sub-branch (華僑城支行) in Shenzhen from June 2006 to December 2008. He worked as the division director (處長) of the assets and liabilities management division (資產負債管理處) of ABC Shenzhen branch (深圳分行) from February 2004 to March 2006. From October 1998 to February 2004, he worked as a deputy division director (副處長) of different departments of ABC Shenzhen branch (深圳分行), including market development division (市場開發處), comprehensive planning division (綜合計畫處), personal business division (個人業務處), and assets and liabilities management division (資產負債管理處). Mr. Tang worked as a vice president of ABC Hongling North Road sub-branch (紅嶺北路支行) from March 1997 to October 1998. He worked as the section chief (科長) and then the assistant to division director (處長助理) of the planning division (計畫處) of ABC Shenzhen branch (深圳分行) from September 1995 to March 1997. Mr. Tang worked at the personnel division (人事處) of ABC Shenzhen branch as a deputy section chief (副科長) from March 1995 to September 1995. He worked as a staff member (科員) and then a deputy section chief (副科長) of the planning division of ABC Shenzhen branch from July 1992 to March 1995.

Mr. Tang obtained a bachelor's degree in economics from East China Normal University (華東師範大學) in Shanghai, the PRC, in July 1989. He obtained a master's degree in economics from Finance Research Institute of Head Office of the People's Bank of China (中國人民銀行總行金融研究所) (currently known as PBC School of Finance, Tsinghua University (清華大學五道口金融學院)) in Beijing, in July 1992. He is a senior economist granted by ABC in December 2011.

Mr. WANG Peiming (王培明), aged 58, has been an executive Director since February 2013. He is primarily responsible for participating in the strategic development of our Bank and making material business decisions.

Mr. Wang has over 30 years of experience in banking industry. He joined our Bank in May 2009 and worked as an assistant to the president from May 2009 to February 2014. Mr. Wang was the chairman of the board of directors of Jinshang Consumer Finance Co., Ltd. (晉商消費金融股份有限公司) from February 2016 to November 2018. Mr. Wang served as a vice president of our Bank from March 2014 to September 2016. Prior to joining our Bank, Mr. Wang worked at Industrial and Commercial Bank of China Limited (中國工商銀行股份有限公司) ("**ICBC**") (a company listed on the Shanghai Stock Exchange with stock code 601398, and on the Hong Kong Stock Exchange with stock code 1398) from May 1985 to May 2009. He worked as a deputy section chief (副科長) of the security department (保衛科) and then a deputy section chief (副科長) of the commercial credit division (商業信貸科) of ICBC Changzhi sub-branch (長治市支行) from May 1985 to October 1988. Mr. Wang served as the president of ICBC Zhangzi county sub-branch (長子縣支行) from October 1988 to March 1991. He served as the director (主任) of Changbei office (長北辦事處) of ICBC in Changzhi from March 1991 to February 1997. Mr. Wang worked as an assistant to president and the office head (辦公室主任) of ICBC Changzhi sub-branch from February 1997 to April 1998. He worked as a vice president of ICBC Yuci branch (榆次分行) from April 1998 to September 2000. Mr. Wang worked at ICBC Yuncheng branch (運城分行) as a vice president and then the president from September 2000 to September 2005. Mr. Wang served as the president of ICBC Changzhi branch from October 2005 to May 2009.

Mr. Wang graduated from the Graduate School of the Central Communist Party School of the CPC (中共中央黨校研究生學院) in the PRC, in July 2011, majoring in economics. He is a senior economist granted by ICBC in November 1994.

Mr. RONG Changqing (容常青), aged 49, has been an executive Director since September 2018, and a vice president of our Bank since December 2018. He is in charge of the legal and compliance department, retail banking department, personal credit loan assets management department, credit cards department, assets management department and small enterprises financial department.

Mr. Rong has over 27 years of experience in auditing and corporate management. Prior to joining our Bank, he worked at Huaneng Capital Service Co., Ltd. for about 14 years since June 2004, as the director (主管) and then the deputy division director (副處長) of the audit and supervision department (審計監察部), the deputy division director (副處長) and then the deputy manager (副經理) of the general manager work department (總經理工作部), the manager of the risk control department (風險控制部), and the general counsel (總法律顧問). Prior to that, he worked at Beijing Wandong Medical Equipment Co., Ltd. (北京萬東醫療裝備股份有限公司) (currently known as Huarun Wandong Medical Equipment Co., Ltd. (華潤萬東醫療裝備股份有限公司)) (a company listed on the Shanghai Stock Exchange with stock code 600055) as the deputy manager of the finance department from April 2004 to June 2004. From October 2003 to April 2004, Mr. Rong served at Beijing Rongtai Hengjia Real Estate Development Co., Ltd. (北京榮泰恒嘉房地產開發有限公司) (currently known as Beijing Kaiya Real Estate Development Co., Ltd. (北京凱亞房地產開發有限公司)) as the chief auditor (審計總監). He worked at mobile digital department (移動數碼事業部) of BOE Technology Group Co., Ltd. (京東方科技集團股份有限公司) as a staff (職員) from February 2003 to October 2003. Prior to that, Mr. Rong once worked at Wuhan special commissioner's office of the Audit Office (審計署武漢特派辦).

Mr. Rong obtained a bachelor's degree in economics from Wuhan University (武漢大學) in Hubei Province, the PRC, in July 1991. He obtained a master's degree in management from Zhongnan University of Economics and Law (中南財經政法大學) in Hubei Province, the PRC, in December 2002. He is a senior auditor granted by the National Audit Office of the PRC (中華人民共和國審計署) in September 2005. Mr. Rong was granted the Qualification of Corporate Legal Counsel by Beijing Human Resources and Social Security Bureau (北京人力資源和社會保障局) in October 2009.

Non-executive Directors

Mr. LI Shishan (李世山), aged 54, has been a non-executive Director since June 2017. 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. Li has more than 34 years of experience in economic management. Mr. Li worked in Shanxi Finance Bureau for over 30 years from November 1984 to August 2016. He was employed by Shanxi Financial Investment Holding Group Co., Ltd. (山西金融投資控股集團有限公司) ("**Shanxi Financial Investment**") and was nominated by Shanxi Financial Investment as a director of our Board in July 2016. He was the division director (處長) of economic development division I (經濟建設一處) from August 2015 to August 2016. He was the division director (處長) of the agricultural division from November 2009 to August 2015. Prior to that, Mr. Li worked in the information and internet center (信息網絡中心) from August 2005 to November 2009 as the director (主任). From August 2003 to August 2005, he served as the deputy division director (副處長) of the international matters division (國際處) and the deputy director (副主任) of the loan management office (貸款管理辦公室). Mr. Li was the deputy division director (副處長) of the external debts division (外債處) from August 2000 to August 2003. From April 1997 to August 2000, he was the deputy division director (副處長) of the foreign trade division (對外經濟貿易處). Prior to that, Mr. Li worked as a staff member, senior staff member (副主任科員), and then principal staff member (主任科員) in the industrial transportation division (工交處) of Shanxi Finance Bureau from November 1984 to April 1997.

Mr. Li graduated from Correspondence Institute of the Central Committee Party School of the CPC (中共中央黨校函授學院) through correspondence study in December 2000, majoring in politics and law. He is an accountant granted by Department of Finance of the PRC (中華人民共和國財政部) in October 1994.

Mr. XIANG Lijun (相立軍), aged 42, has been a non-executive Director since August 2018. 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. Xiang has about 20 years of experience in accounting. He holds positions at several subsidiaries of China Huaneng Group Co., Ltd. (中國華能集團有限公司) ("**China Huaneng Group**"), including the chairman of the board of directors of Huaneng Baocheng Wuhua Co., Ltd. (華能寶城物華有限公司) since January 2019, a director of Beijing Yuncheng Financial Information Services Co., Ltd. (北京雲成金融信息服務有限公司) since January 2018, a director of Huaneng Carbon Assets Management Co., Ltd. (華能碳資產經營有限公司) since October 2017, and a deputy general manager of Huaneng Capital Service Co., Ltd. (華能資本服務有限公司) since March 2016. Mr. Xiang has been the vice chairman of the board of directors of Huaxi Securities Co., Ltd. (華西證券股份有限公司) (a company listed on the Shenzhen Stock Exchange with stock code 002926) since August 2017. Mr. Xiang worked at China Huaneng Group from July 2005 to March 2016, as an officer (幹部) of the information services center (資訊服務中心) from July 2005 to November 2005, as a deputy division director (副處長) of the finance and accounting division I (財會一處), as a deputy division director (副處長) of the accounting division (會計處) and the division director (處長) of the general administration division (綜合處) from November 2005 to May 2012, as the division director (處長) of the general administration and statistics division (綜合與統計處) and the budget and general planning department (預算與綜合計畫部) from May 2012 to October 2012, and as a secretary of the secretary office of general office (辦公廳秘書處) and the division director (處長) of the general administration division (綜合處) from October 2012 to March 2016. From January 2003 to July 2005, Mr. Xiang worked as an accountant and a deputy manager for planning and finance department of Huaneng Information Industry Holding Co., Ltd. (華能信息產業控股有限公司) ("**Huaneng Information Industry**"). From July 2000 to January 2003, he was an assistant accountant (助理會計師) of the assets management department of Huaneng Comprehensive Industry Co., Ltd. (華能綜合產業有限公司). Prior to that, Mr. Xiang worked as an officer (幹部) at the corporate management department of China Huaneng Technology Development Co., Ltd. (中國華能技術開發有限公司) (currently known as Huaneng Comprehensive Industry Co., Ltd. (華能綜合產業有限公司)) ("**Huaneng Comprehensive Industry**") from April 2000 to July 2000. Huaneng Information Industry and Huaneng Comprehensive Industry both are subsidiaries of China Huaneng Group.

Mr. Xiang obtained a bachelor's degree in accounting from Renmin University of China (中國人民大學) in Beijing, the PRC, in July 1998. He obtained a master's degree in business administration from Tsinghua University (清華大學) in Beijing, the PRC, in July 2004. Mr. Xiang is a senior accountant granted by China Huaneng Group in December 2006.

Mr. LIU Chenhang (劉晨行), aged 54, was elected as a non-executive Director by the Shareholders' general meeting in May 2018. 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. Liu has more than 30 years of experience in economic management. He has been serving as the general manger of Taiyuan Haixin Assets Management Co., Ltd. (太原市海信資產管理有限公司) since February 2018, as the deputy manager of Taiyuan Finance Assets Management Center (太原市財政資產管理中心) since February 2018, as the general manager of Taiyuan Linhaitong Technology and Innovation Corporate Management Co., Ltd. (太原林海通科創企業管理有限公司) since May 2018, as the vice chairman of the board of directors of Taiyuan Shuilang Road Network Construction Co., Ltd. (太原水廊路網建設工程有限公司) since July 2018, and as a director of Taiyuan Haixin Public Rental Housing Real Estate Development Co., Ltd. (太原海信公租房置業發展有限公司) since July 2018. Mr. Liu worked at Taiyuan Municipal Finance Bureau from August 1985 to February 2018 and served as a staff member of city construction section (城建科) from August 1985 to May 1995, as a deputy section chief (副科長) of other corporations section (其他企業科) from June 1995 to September 1998, as a deputy section chief (副科長) of city construction section from September 1998 to June 2002, as a deputy division director (副處長) of city construction division from June 2002 to March 2013, and as the office director (辦公室主任) of Taiyuan Municipal Finance Bureau from March 2013 to February 2018.

Mr. Liu completed studies at junior college level (專科) through correspondence study and graduated 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 July 1992, majoring in finance. Mr. Liu graduated from Shanxi University of Finance and Economics (山西財經大學) in Shanxi Province, the PRC, in July 1999, majoring in marketing (市場營銷). He is an accountant granted by Ministry of Finance of the PRC (中華人民共和國財政部) in October 1994.

Mr. LI Yang (李楊), aged 32, was elected as a non-executive Director by the Shareholders' general meeting in May 2018. 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. Li has more than eight years of experience in corporate management. He has been the assistant to the chairman of the board of directors of Changzhi Nanye Industry Group Co., Ltd. (長治市南燁實業集團有限公司) since December 2010.

Mr. Li obtained a bachelor's degree in law from Shanxi University (山西大學) in Shanxi Province, the PRC, in July 2015.

Mr. Li was previously the legal representative, managing director or supervisor of the companies shown in the table below before their respective revocation of business license or deregistration.

Name of the Company	Place of establishment	Position	Status	Date of revocation of business license
Changzhi Nanye Mining Industry Co., Ltd. (長治市南燁礦業有限責任公司)	PRC	Legal representative and managing director	Business license revoked	April 25, 2008
Changzhi Huashengrong Mining Industry Co., Ltd. (長治市華晟榮礦業有限公司).	PRC	Supervisor	Dissolved and deregistered	June 30, 2012

Mr. Li confirmed that the business license of Changzhi Nanye Mining Industry Co., Ltd. (長治市南燁礦業有限責任公司) was revoked due to its failure to undergo annual inspection under the relevant PRC regulations because of its unfamiliarity with the relevant laws and regulations. Mr. Li 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. Li confirmed that Changzhi Huashengrong Mining Industry Co., Ltd. was absorbed by Shanxi Huashengrong Coal Mine Co., Ltd. (山西華晟榮煤礦有限公司) in June 2012 and the debts and obligations of Changzhi Huashengrong Mining Industry Co., Ltd. were all transferred to Shanxi Huashengrong Coal Mine Co., Ltd. Mr. Li confirmed that after the absorption, Changzhi Huashengrong Mining Industry Co., Ltd. was deregistered and it was solvent at the time of deregistration, and he did not incur any debt and/or liabilities because of such deregistration, and that the deregistration did not have any negative effect on the Bank.

Mr. WANG Jianjun (王建軍), aged 43, has been a non-executive Director since August 2018. 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. Wang has over 20 years of experience in accounting. He holds positions at several subsidiaries of Lu'an Mining Industry (Group) Co., Ltd. (潞安礦業(集團)有限責任公司), including a director of Lu'an Group Finance Co., Ltd. (潞安集團財務有限公司) since August 2018, a director of Shanxi Lu'an Ruitai Investment Co., Ltd. (山西潞安瑞泰投資有限責任公司) since December 2017, and the head (部長) of the finance department (財務部) of Shanxi Lu'an Environmental-friendly Energy Development Co., Ltd. (山西潞安環保能源開發股份公司) since November 2017. From March 2015 to November 2017, Mr. Wang worked at Wangzhuang pit (王莊煤礦) of Lu'an Mining Group, as the section chief (科長) of the finance section (財務科) from March 2015 to February 2017, and as the chief accountant (總會計師) from February 2017 to November 2017. He was the financial director (財務總監) of Shanxi Shouyang Luyang Ruilong Coal Industry Co., Ltd. (山西壽陽潞陽瑞龍煤業有限公司) from July 2012 to March 2015. Prior to that, Mr. Wang worked as the financial director of Shanxi Shouyang Luyang Changtai Coal Industry Co., Ltd. (山西壽陽潞陽昌泰煤業有限公司) from

December 2009 to July 2012. He worked at the finance section (財務科) of Changcun pit (常村煤礦) of Lu'an Mining Group, as a staff member (科員) and then a deputy section chief (副科長) from May 1997 to December 2009.

Mr. Wang graduated from Harbin Normal University (哈爾濱師範大學) through correspondence study in Heilongjiang Province, the PRC, in July 2013, majoring in financial management (財務管理). He has been a member of the Chinese Institute of Certified Public Accountants since December 2009. Mr. Wang is a middle level accountant granted by the Ministry of Finance of the PRC in May 2002.

Independent Non-executive Directors

Mr. JIN Haiteng (金海騰), aged 67, has been an independent non-executive Director since June 2017. He is primarily responsible for supervising and providing independent advice on the operation and management of our Bank.

Mr. Jin has more than 35 years of experience in bank industry and administrative management. He has been the chief executive officer (總裁) of Shanghai Rongzhidao Investment Management and Consulting Co., Ltd. (上海融至道投資管理諮詢有限公司) since November 2011. He has been an executive director and the general manager of Shenzhen Qianhai Jin Haiteng Management and Consulting Co., Ltd. (深圳前海金海騰管理諮詢有限公司) since February 2015. Mr. Jin has been a supervisor of Guangzhou Rongzhiyi Education Information Consulting Co., Ltd. (廣州融至益教育信息諮詢有限公司) since January 2014. From March 2005 to December 2011, Mr. Jin served as a vice president of Guangfa Bank Co., Ltd. (廣發銀行股份有限公司) ("**Guangfa Bank**"). From June 1997 to December 2007, he was the president of Hangzhou branch, Guangfa Bank. From January 1990 to May 1994, Mr. Jin served as the acting president (代縣長) and then the president (縣長) of Yin County (鄞縣). Prior to that, he was the vice director (副主任) of the finance office (財辦) of Ningbo government from February 1987 to January 1990, during which time he also served as the head (局長) of commercial bureau (商業局) of Ningbo from May 1988 to January 1990. Mr. Jin worked at the commodities pricing bureau (物價局) of Ningbo from February 1981 to February 1987, as a deputy section chief (副科長) from February 1981 to June 1985, and as a deputy head (副局長) from June 1985 to February 1987.

Mr. Jin is an independent non-executive director of the companies shown in the table below.

Name of the Company	Place of Establishment	Nature of Business	Term of Service
Suzhou Bank Co., Ltd. (蘇州銀行股份有限公司)	PRC	Banking	February 2015 to present
Beijing Xin'an Century Technology Co., Ltd. (北京信安世紀科技股份有限公司).	PRC	Technology services	November 2017 to present
Guangdong Wanzhang Jinshu Information and Technology Co., Ltd. (廣東萬丈金數信息技術股份有限公司) . . .	PRC	Science studies and technology services	December 2018 to present

Mr. Jin obtained a junior college level (專科) degree in basics for party and government leaders (黨政幹部基礎科) from Hangzhou University (杭州大學) in Zhejiang Province, the PRC, in June 1987.

The Directors are of the view that Mr. Jin will be able to devote sufficient time to discharge his responsibilities as an independent non-executive Director of the Bank because (i) Mr. Jin expects that the time to be spent for his roles in Shanghai Rongzhidao Investment Management and Consulting Co., Ltd., Shenzhen Qianhai Jin Haiteng Management and Consulting Co., Ltd., and Guangzhou Rongzhiyi Education Information Consulting Co., Ltd. and as an independent non-executive director of the other companies as disclosed above occupies approximately 80% of his working time and the remaining 20% of his working time is sufficient for him to fulfill his responsibilities in the Bank; and (ii) Mr. Jin has regularly attended the Board meetings of the Bank and various meetings of the committees under the Board in which he is a chairman/member since his appointment as an independent non-executive Director in June 2017. The Joint Sponsors concur with the Directors' view based on the reasons set out above.

Mr. SUN Shihu (孫試虎), aged 74, has been an independent non-executive Director since February 2017. He is primarily responsible for supervising and providing independent advice on the operation and management of our Bank.

Mr. Sun has more than 30 years of experience in banking industry. Mr. Sun has been an independent non-executive director of Tangshan Bank Co., Ltd. (唐山銀行股份有限公司) since August 2013. Mr. Sun worked at the head office of Industrial and Commercial Bank of China Limited (中國工商銀行股份有限公司) ("**ICBC**") (a company listed on the Shanghai Stock Exchange with stock code 601398, and on the Hong Kong Stock Exchange with stock code 1398) from April 1997 to March 2005 and served as the deputy general manager (副總經理) of the commercial credit loan department (商業信貸部) from April 1997 to April 1998, as the deputy general manager (副總經理) of the industrial and commercial credit loan department (工商信貸部) from April 1998 to July 2001, as the deputy general manager (副總經理) of the credit loan management department (信貸管理部) from July 2001 to February 2004, and as a researcher of the credit loan management department (信貸管理部) from February 2004 to March 2005. Prior to that, Mr. Sun worked at the Hubei branch of ICBC and served as the deputy division director of commercial credit loan division (商業信貸處) from July 1985 to August 1991, as the director of real estate credit loan department (房地產信貸部) from August 1991 to September 1993, as the general manager of Trust and Investment Company of Hubei Branch of ICBC (中國工商銀行湖北分行信託投資公司) from April 1992 to March 1996, as the division director (處長) of the audit division (稽核處) from March 1996 to October 1996 and as the chief economist (總經濟師) from October 1996 to April 1997.

Mr. Sun graduated from China Hubei University (中國湖北大學) (currently known as Zhongnan University of Economics and Law (中南財經政法大學)) in Hubei Province, the PRC, in August 1969, majoring in statistics. He is a senior economist (經濟師) granted by ICBC in December 1987.

Mr. WANG Liyan (王立彥), aged 62, has been an independent non-executive Director since September 2018. He is primarily responsible for supervising and providing independent advice on the operation and management of our Bank.

He has been working at Peking University (北京大學) for over 30 years since 1985 and consecutively served as a teaching assistant (助教), teacher (講師), associate professor and professor of accounting. Mr. Wang is a professor and Ph.D. supervisor of Accounting Faculty of Guanghua School of Management, Peking University (北京大學). Mr. Wang is also the director of the Research Center for International Accounting and Finance of Peking University. Mr. Wang is the editor-in-chief of China Accounting Review (中國會計評論) and China Management Accounting (中國管理會計).

Mr. Wang is an independent non-executive director of the listed companies shown in the table below.

Name of the Company	Place of Establishment	Nature of Business	Term of Service
China Shengmu Organic Milk Ltd. (中國聖牧有機奶業有限公司), listed on the Hong Kong Stock Exchange (stock code: 1432)	Cayman	Dairy industry	June 2017 to present
Huaxin Cement Co., Ltd. (華新水泥股份有限公司), listed on the Shanghai Stock Exchange (stock code: 600801)	PRC	Cement industry	April 2015 to present
Unigroup Guoxin Microelectronics Co., Ltd. (紫光國芯微電子股份有限公司), listed on the Shenzhen Stock Exchange (stock code: 002049)	PRC	Circuit chip design and development	March 2017 to present
Gettop Acoustic Co., Ltd. (共達電聲股份有限公司), listed on the Shenzhen Stock Exchange (stock code: 002655)	PRC	Audio engineering industry	April 2018 to present
Shenzhen Saiwei Intelligence Co., Ltd. (深圳市賽為智能股份有限公司), listed on the Shenzhen Stock Exchange (stock code: 300044)	PRC	Software development	September 2014 to August 2017

Mr. Wang obtained a doctor's degree in economics from Peking University (北京大學) in Beijing, the PRC, in July 1992. He has been a non-practicing member of the Chinese Institute of Certified Public Accountants since April 1994.

The Directors are of the view that Mr. Wang will be able to devote sufficient time to discharge his responsibilities as an independent non-executive Director of the Bank because (i) Mr. Wang expects that the time to be spent for his role as a professor in Peking University occupies less than 50% of his working time, and that he has sufficient time to fulfill his responsibilities in the Bank; and (ii) Mr. Wang has regularly attended the Board meetings of the Bank and various meetings of the committees under the Board in which he is a chairman/member since his appointment as an independent non-executive Director in September 2018. The Joint Sponsors concur with the Directors' view based on the reasons set out above.

Mr. DUAN Qingshan (段青山), aged 61, was elected as an independent non-executive Director by the Shareholders' general meeting in May 2018. He is primarily responsible for supervising and providing independent advice on the operation and management of our Bank.

Mr. Duan has more than 20 years of experience in banking industry. He worked at the head office of China Minsheng Bank Corp., Ltd. (中國民生銀行股份有限公司) ("**China Minsheng Bank**") (a company listed on the Shanghai Stock Exchange with stock code 600016, and on the Hong Kong Stock Exchange with stock code 1988) from November 2007 to February 2017, and served as the general manager of human resources department from November 2007 to September 2012, as the chief financial director (財務總監) from April 2010 to April 2012, and as the chairman of the board of supervisors from April 2012 to January 2018. Mr. Duan worked at Taiyuan branch, China Minsheng Bank from November 1996 to November 2007, as a vice president from November 1996 to August 2000, and as the president from August 2000 to November 2007.

Mr. Duan obtained a master's degree in business administration from Wuhan University (武漢大學) in Hubei Province, the PRC, in December 2006.

Mr. SAI Zhiyi (賽志毅), aged 50, has been an independent non-executive Director since August 2018. He is primarily responsible for supervising and providing independent advice on the operation and management of our Bank.

Mr. Sai has over 27 years of experience in banking industry and corporate management. Mr. Sai has been the deputy general manager of Shandong Hi-speed Group Limited (山東高速集團有限公司) since August 2017, and the chairman of the board of directors of its subsidiary Shandong Hi-speed Co., Ltd. ("**Shandong Hi-speed**") (山東高速股份有限公司) (a company listed on the Shanghai Stock Exchange with stock code 600350) since July 2018. Mr. Sai worked as the vice chairman of the board of directors and the general manager of Shandong Hi-speed from June 2017 to July 2018. Prior to that, Mr. Sai worked as the vice chairman of the board of directors and the president of Weihai Commercial Bank Co., Ltd. (威海市商業銀行股份有限公司) ("**Weihai Bank**") from May 2011 to June 2017. He was the general manager of Shandong Re-guarantee Group Co., Ltd. (山東再擔保集團有限公司) from November 2009 to June 2011. Mr. Sai served as a vice president of Weihai Bank from January 2002 to October 2009. From December 1998 to January 2002, Mr. Sai served as the president of a sub-branch of Weihai Bank. From August 1997 to December 1998, he was the director (主任) of credit loan department (信貸部) of Weihai City Cooperative Bank Co., Ltd. (威海市城市合作銀行股份有限公司) (currently known as Weihai City Commercial Bank Co., Ltd. (威海市商業銀行股份有限公司)). Mr. Sai worked for the Weihai branch of Industrial and Commercial Bank of China Limited (中國工商銀行股份有限公司) ("**ICBC**") as an officer at deputy section level (副科級幹部) from February 1996 to August 1997. From November 1995 to February 1996, Mr. Sai served as the vice plant manager of Weihai Hua'ao Aluminum Windows Co., Ltd. (威海華澳鋁塑門窗有限公司). He worked at Weihai branch of ICBC and consecutively served as an accountant, an office clerk (辦事員) and an operation officer (業務主任) from January 1992 to November 1995.

Mr. Sai obtained a master's degree in management from Tongji University (同濟大學) in Shanghai, the PRC, in May 2004. He obtained a doctor's degree in management from Tongji University in Shanghai, the PRC, in June 2008. Mr. Sai is a senior economist granted by Department of Human Resources of Shandong Province (山東省人事廳) in March 2007.

Mr. YE Xiang (葉翔), aged 55, was elected as an independent non-executive Director by the Shareholders' general meeting in December 2018. He is primarily responsible for supervising and providing independent advice on the operation and management of our Bank.

Mr. Ye has nearly 20 years of experience in financial industry. He is the founder and has been the managing director (董事總經理) of Vision Gain Capital Co., Ltd. (匯信資本股份有限公司) since January 2018. From August 2001 to November 2007, Mr. Ye worked at the China affairs department (中國事務部) of the SFC, as a senior manager from August 2001 to July 2005, as an associate director from August 2005 to July 2006, and as the director from August 2006 to November 2007.

Mr. Ye is an independent non-executive director of the listed companies shown in the table below.

Name of the Company	Place of Establishment	Nature of Business	Term of Service
51 Credit Card Inc. (51信用卡有限公司), listed on the Hong Kong Stock Exchange (stock code: 2051).	Cayman Islands	Peer to peer (P2P) lending platform	July 2018 to present
Datang Environment Industry Group Co., Ltd. (大唐環境產業集團股份有限公司), listed on the Hong Kong Stock Exchange (stock code: 1272).	PRC	Development of environmental protection and energy conservation business	November 2016 to present
Wuling Motors Holdings Limited (五菱汽車集團控股有限公司), listed on the Hong Kong Stock Exchange (stock code: 0305)	Bermuda	Automobile industry	October 2008 to present
Digital China Group Co., Ltd. (神州數碼集團股份有限公司), listed on the Shenzhen Stock Exchange (stock code: 000034) . . .	PRC	IT services	June 2011 to April 2016

Mr. Ye obtained a bachelor's degree in engineering from Zhejiang University (浙江大學) in Zhejiang Province, the PRC, in July 1983. He obtained a master's degree in economics from Zhejiang University in January 1991. Mr. Ye obtained a doctor's degree in economics from Finance Research Institute of Head Office of the People's Bank of China (中國人民銀行總行金融研究所) (currently known as PBC School of Finance, Tsinghua University (清華大學五道口金融學院)) in Beijing, the PRC, in April 1995. He is a chartered financial analyst granted by CFA Institute in September 2004.

Mr. Ye was previously a director of the company shown in the table below before its deregistration.

Name of the company	Place of establishment	Position	Status	Date of deregistration
VisionGain Capital Partners Limited . . .	Hong Kong	Director	Dissolved and deregistration	September 25, 2015

Mr. Ye confirmed that the company never commenced operations and its deregistration was voluntary by the resolutions of the shareholders of the company. The above company was solvent at the time of deregistration, and he did not incur any debt and/or liabilities because of such deregistration, and that the deregistration did not have any negative effect on the Bank.

The Directors are of the view that Mr. Ye will be able to devote sufficient time to discharge his responsibilities as an independent non-executive Director of the Bank because Mr. Ye expects that the time to be spent for his role as the managing director in Vision Gain Capital Co., Ltd. occupies approximately 80% of his working time, and as an independent non-executive director of the other listed companies as disclosed above and our Bank occupies approximately 20% of his working time, and his working time to be devoted to our Bank is sufficient for him to fulfill his responsibilities in the Bank. The Joint Sponsors concur with the Directors' view based on the reasons set out above.

BOARD OF SUPERVISORS

The PRC Company Law requires a joint stock company to establish a board of supervisors that is responsible for supervising performance of the board of directors and senior management, its financial operations, internal control and risk management. Our Board of Supervisors consists of nine Supervisors, including three employees' representative Supervisors, three Shareholders' representative Supervisor 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	Time of joining our Bank	Date of appointment as a Supervisor	Position(s) held at our Bank as of the Latest Practicable Date	Responsibilities
Mr. XIE Liying (解立鷹)	52	May 2009	July 24, 2009 (as a Supervisor); December 8, 2016 (as the chairman of the Board of Supervisors)	Chairman of the Board of Supervisors and employees' representative Supervisor	Responsible for supervising the performance of duties by the Directors and the senior management, financial activities, internal control and risk management of our Bank

Name	Age	Time of joining our Bank	Date of appointment as a Supervisor	Position(s) held at our Bank as of the Latest Practicable Date	Responsibilities
Mr. BI Guoyu (畢國鈺)	54	February 2009	February 5, 2009	Shareholders' representative Supervisor	Responsible for supervising the performance of duties by the Directors and the senior management, financial activities, internal control and risk management of our Bank
Ms. XU Jin (徐瑾)	42	December 2015	December 18, 2015	Shareholders' representative Supervisor	Responsible for supervising the performance of duties by the Directors and the senior management, financial activities, internal control and risk management of our Bank
Mr. XIA Guisuo (夏貴所)	56	May 2018	May 4, 2018	Shareholders' representative Supervisor	Responsible for supervising the performance of duties by the Directors and the senior management, financial activities, internal control and risk management of our Bank
Mr. WEN Qingquan (溫清泉)	45	March 2011	May 13, 2019	Employees' representative Supervisor	Responsible for supervising the performance of duties by the Directors and the senior management, financial activities, internal control and risk management of our Bank
Mr. GUO Zhenrong (郭振榮)	54	May 2009	May 13, 2019	Employees' representative Supervisor	Responsible for supervising the performance of duties by the Directors and the senior management, financial activities, internal control and risk management of our Bank

Name	Age	Time of joining our Bank	Date of appointment as a Supervisor	Position(s) held at our Bank as of the Latest Practicable Date	Responsibilities
Mr. LIU Shoubao (劉守豹)	52	December 2015	December 18, 2015	External Supervisor	Responsible for supervising the performance of duties by the Directors and the senior management, financial activities, internal control and risk management of our Bank
Mr. WU Jun (吳軍)	65	May 2018	May 4, 2018	External Supervisor	Responsible for supervising the performance of duties by the Directors and the senior management, financial activities, internal control and risk management of our Bank
Mr. LIU Min (劉旻)	56	May 2018	May 4, 2018	External Supervisor	Responsible for supervising the performance of duties by the Directors and the senior management, financial activities, internal control and risk management of our Bank

Mr. XIE Liying (解立鷹), aged 52, has been an employees' representative Supervisor since July 2009 and the chairman of the Board of Supervisors since December 2016. He is primarily responsible for supervising the performance of duties by the Directors and the senior management, financial activities, internal control and risk management of our Bank.

Mr. Xie has over 20 years of experience in administrative and corporate management. He has been the chief human resources officer (首席人力資源官) of our Bank since January 2014. He served as the general manager of the human resources department (人力資源部) of our Bank from May 2009 to January 2014. Mr. Xie was seconded to the preparatory team of our Bank from September 2008 to May 2009, when he worked as the deputy director (副主任) in the cadre report center (幹部舉報中心) of the organization department of the Shanxi Provincial Party Committee (山西省委組織部) from April 2006 to May 2009. Mr. Xie was a principal staff member (主任科員) in the cadre (under direct management) section (省直幹部處) of the organization department of the Shanxi Provincial Party Committee from April 2003 to April 2006. Prior to that, he worked as an officer at the expert services center (專家服務中心) of the organization department of the Shanxi Provincial Party Committee (山西省委組織部) from February 1998 to April 2003. Mr. Xie worked as the deputy director (副主任) and then the director (主任) of the office of the training center (培訓中心辦公室) of Shanxi Administration for Industry and Commerce (山西省工商行政管理局) from December 1994 to February 1998, during which period he was seconded to the expert services center (專家服務中心) of the organization department of the Shanxi Provincial Party Committee (山西省委組織部) from October 1996 to February 1998.

Mr. Xie obtained a bachelor's degree in economics from Beijing College of Finance and Commerce (北京財貿學院) in Beijing, the PRC, in July 1989.

Mr. Bi Guoyu (畢國鈺), aged 54, has been a Shareholder's representative Supervisor since February 2009. He is primarily responsible for supervising the performance of duties by the Directors and the senior management, financial activities, internal control and risk management of our Bank.

Mr. Bi has around 30 years of experience in accounting. Mr. Bi has been working as a staff and then a deputy manager accountant (副主任會計師) of the finance center (財務中心) of Shanxi Jincheng Anthracite Coal Mining Group Co., Ltd. (山西晉城無煙煤礦業集團有限責任公司) since July 1986.

Mr. Bi graduated from Hohai University (河海大學) in Jiangsu Province, the PRC, through correspondence study in July 2004, majoring in accounting. He is an accountant granted by Ministry of Finance of the PRC (中華人民共和國財政部) in October 1994.

Ms. XU Jin (徐瑾), aged 42, has been a Shareholders' representative Supervisor since December 2015. She is primarily responsible for supervising the performance of duties by the Directors and the senior management, financial activities, internal control and risk management of our Bank.

Ms. Xu has around 20 years of experience in accounting. Ms. Xu has been working as the deputy director (副部長) of the finance department of Shanxi Coking Coal Co., Ltd. (山西焦煤集團有限責任公司) (the "**Shanxi Coking Coal**") since June 2013. From November 2017 to November 2018, Ms. Xu also served as the director (主任) of the preparatory office of finance shared center (財務共享中心籌備辦公室) of Shanxi Coking Coal. Ms. Xu was the section chief (科長) of the finance department (財務部) of Shanxi Coking Coal from December 2009 to May 2013. Prior to that, she worked at Xishan Coal and Electricity Group Co., Ltd. (西山煤電集團有限責任公司) and served as a staff member (科員) of the finance division (財務處) from December 1999 to December 2005, and as a deputy section chief (副科長) of the capital settlement and management center (資金結算管理中心) from January 2006 to December 2009.

Ms. Xu obtained a bachelor's degree in engineering in June 2003 from Taiyuan University of Technology (太原理工大學) in Shanxi Province, the PRC. She obtained a bachelor's degree in accounting from Taiyuan University of Technology in accounting in January 2008 through correspondence study. Ms. Xu obtained a master's degree in business administration in June 2011 from Shanxi University of Finance and Economics (山西財經大學) in Shanxi Province, the PRC. Ms. Xu has been a non-practicing member of the Chinese Institute of Certified Public

Accountants since December 2009. She is also a holder of the certificate of senior level of accounting granted by Department of Resource and Social Security of Shanxi Province (山西省人力資源和社會保障廳) in April 2011.

Mr. XIA Guisuo (夏貴所), aged 56, has been a Shareholders' representative Supervisor since May 2018. He is primarily responsible for supervising the performance of duties by the Directors and the senior management, financial activities, internal control and risk management of our Bank.

Mr. Xia has more than 25 years of experience in accounting and financial industry. Mr. Xia has been a director of Shanxi Securities Co., Ltd. (山西證券股份有限公司) (a company listed on the Shenzhen Stock Exchange with stock code 002500) since July 2018. He has been a deputy head (副部長) of finance management department (財務管理部) of Jinneng Group Co., Ltd. (晉能集團有限公司) since November 2017. Mr. Xia has been a director of Shanxi International Electricity Group Limited Company (山西國際電力集團有限公司) ("**Shanxi International Electricity**") since April 2017 and the head (部長) of its finance department (財務部) since November 2017. Mr. Xia has been a director of Shanxi Top Energy Co., Ltd. (山西通寶能源股份有限公司) (a company listed on the Shanghai Stock Exchange with stock code 600780) since May 2016. Mr. Xia was the manager of finance department of Shanxi International Electricity from July 2010 to November 2017, during which period he also served as the chief accountant (總會計師) at Jinneng Electricity Group Co., Ltd. (晉能電力集團有限公司) from February 2014 to March 2017, and as a director of Shanxi Zhangze Electric Power Co., Ltd. (山西漳澤電力股份有限公司) (a company listed on the Shenzhen Stock Exchange with stock code 000767) from April 2014 to May 2016. He was a director of Beijing Jingneng Power Co., Ltd. (北京京能電力股份有限公司) (a company listed on the Shanghai Stock Exchange with stock code 600578) from August 2013 to December 2017. Mr. Xia worked as the chief accountant at Shanxi International Electricity Power Distribution Management Co., Ltd. (山西國際電力配電管理有限公司) (dissolved) from February 2008 to July 2010. From November 1992 to February 2008, he worked at Shanxi Top Energy Co., Ltd. (山西通寶能源股份有限公司) (a company listed on the Shanghai Stock Exchange with stock code 600780), as the chief accountant (主管會計) from November 1992 to November 1996, as a deputy manager of finance department from November 1996 to January 1998, as the manager of finance department from January 1998 to November 2001, as an assistant to the general manager from August 2000 to November 2001, as the chief accountant from November 2001 to February 2008, and as the deputy general manager from March 2004 to February 2008.

Mr. Xia graduated from Shanxi Finance College (山西財經學院) (currently known as Shanxi University of Finance and Economics (山西財經大學)) in Shanxi Province, the PRC, in May 1989, majoring in finance (財政). He is a senior accountant granted by Department of Human Resources of Shanxi Province (山西省人事廳) in December 2000.

Mr. Xia was previously a director of the companies shown in the table below before their respective deregistration or revocation of business license.

Name of the Company	Place of establishment	Nature of business	Position	Status	Date of deregistration or revocation of business license
Shanghai Tongbao Venture Investment Co., (上海通寶創業投資有限公司)	PRC	Business service industry	Director	Dissolved and deregistered	March 31, 2006
Shanxi Tongbao Industry and Trade Co., Ltd. (山西通寶工貿有限公司).	PRC	Wholesale and retail	Director	Business license revoked	December 25, 2003

Mr. Xia confirmed that the deregistration of Shanghai Tongbao Venture Investment Co., Ltd. (上海通寶創業投資有限公司) was voluntary by the shareholders of the company. The Company was solvent at the time of deregistration.

Mr. Xia confirmed that the business license of Shanxi Tongbao Industry and Trade Co., Ltd. (山西通寶工貿有限公司) was revoked due to its failure to undergo annual inspection under the relevant PRC regulations.

Mr. Xia confirmed that he did not incur any debt and/or liabilities because of such deregistration/revocation of business license, and that the deregistration/revocation of business license did not have any negative effect on our Bank.

Mr. WEN Qingquan (溫清泉), aged 45, has been an employees' representative Supervisor since May 2019. He is primarily responsible for supervising the performance of duties by the Directors and the senior management, financial activities, internal control and risk management of our Bank.

Mr. Wen has more than eight years of experience in banking industry. Mr. Wen has been the director (主任) of the president's office (行長辦公室) of our Bank since February 2019. Mr. Wen joined our Bank in March 2011. He worked as the deputy general manager (副總經理) of the HR department (人力資源部) of our Bank from May 2015 to February 2019, during which period he also served as the deputy director (副主任) of the assessment office (考核辦公室) of our Bank from November 2016 to February 2018 and then the general manager (總經理) of the assessment training department (考核培訓部) of our Bank from February 2018 to February 2019. Mr. Wen served as the assistant to the general manager (總經理助理) of the HR department (人力資源部) of our Bank from April 2011 to May 2015. Prior to joining our Bank, Mr. Wen worked at Shanxi Elderly Cadre Bureau of Shanxi Provincial Party Committee (山西省委老幹部局) from September 2001 to March 2011 and served as a senior staff member (副主任科員) from November 2002 to October 2005, as a principal staff member (主任科員) from October 2005 to February 2009 and as an associate editor (副主編) and the vice president (副社長) of Shanxi Elderly Magazine (老年雜誌社) of Shanxi Elderly Cadre Bureau of Shanxi

Provincial Party Committee from February 2009 to March 2011. Mr. Wen worked at the party school of Heshun County Party Committee (和順縣委黨校) from August 1998 to October 2000 and then worked at the organization department of Heshun County Party Committee (和順縣委組織部) from October 2000 to November 2001.

Mr. Wen obtained a bachelor's degree in economics from Shanxi Agricultural University (山西農業大學) in Shanxi Province, the PRC, in July 1998.

Mr. GUO Zhenrong (郭振榮), aged 54, has been an employees' representative Supervisor since May 2019. He is primarily responsible for supervising the performance of duties by the Directors and the senior management, financial activities, internal control and risk management of our Bank.

Mr. Guo has more than 30 years of experience in banking industry. Mr. Guo has been the candidate of the president of our Comprehensive Reform Demonstration Zone sub-branch (太原綜改示範區支行) since February 2019. Mr. Guo joined our Bank in May 2009 and worked as the general manager of the No. 2 business department (業務二部) of our Bank from May 2009 to March 2011, as the president of our Linfen branch (臨汾分行) from March 2011 to January 2014, as the general manager of the personal credit assets department (個人信貸資產部) of our Bank from January 2014 to January 2017 and then as the general manager of the institutional development department (機構發展部) of our Bank from January 2017 to February 2019. Prior to joining our Bank, Mr. Guo worked at China Construction Bank Corporation (中國建設銀行股份有限公司) ("**CCB**") (a company listed on the Shanghai Stock Exchange with stock code 601939 and on the Hong Kong Stock Exchange with stock code 939) for over 20 years. He served as a cadre (幹部), a staff member (科員) and then a senior staff member (副主任科員) of the central investment division (中央投資處) of CCB Shanxi branch from July 1986 to July 1993, as a senior staff member (副主任科員) of the credit management division (信貸管理處) from July 1993 to August 1994 and as the section chief (科長) of the business audit section (業務審計科) of the inspection and review division (稽審處) of CCB Shanxi branch from August 1994 to February 1998. He then worked as the assistant to president (行長助理), the chief inspection and approval officer (總稽核) and then the deputy director (副主任) of the audit office (審計辦事處) of CCB Linfen branch from February 1998 to April 2002. Mr. Guo worked at CCB Shanxi branch as the deputy division director (副處長) of the comprehensive business division (綜合業務處) of the general audit office (總審計室) from April 2002 to June 2003 and then as the deputy general manager (副總經理) of the planning and finance department (計劃財務部) from June 2003 to June 2007. He worked as the vice president of CCB Linfen branch for nearly two years since June 2007.

Mr. Guo obtained a bachelor's degree in economics from Dongbei University of Finance & Economics (東北財經大學) in Liaoning Province, the PRC, in July 1986. Mr. Guo completed graduate studies and graduated from Beijing Technology and Business University (北京工商大學) in Beijing, the PRC in January 2004, majoring in industry economics. He further completed studies and graduated from Central Committee Party School of the CPC (中共中央黨校) in July 2006. Mr. Guo is a China Registered Senior Business Strategist certified by China Commercial Occupational Skill Testing And Instruction Center (中國商業聯合會商業職業技能鑒定指導中心) in January 2008. He is a senior economist granted by CCB in December 1998.

Mr. LIU Shoubao (劉守豹), aged 52, has been an external Supervisor since December 2015. He is primarily responsible for supervising the performance of duties by the Directors and the senior management, financial activities, internal control and risk management of our Bank.

Mr. Liu has over 20 years of experience in law. Mr. Liu has been working as the director (主任) at Beijing P.H. Law Firm LLP (北京市普華律師事務所) since December 1996. Prior to that, he served as the director (主任) and partner at Beijing Huangdu Law Firm LLP (北京市皇都律師事務所) for about two years from December 1994. Mr. Liu once served as an officer of the International Institute (國際研究院) of CITIC Trust Investment Co., Ltd. (中國國際信託投資公司).

Mr. Liu obtained a bachelor's degree in law from Jiangxi University (江西大學) (currently known as Nanchang University (南昌大學)) in Jiangxi Province, the PRC, in July 1987. He obtained a master's degree in economic law from Southwest College of Political Science and Law (西南政法學院) (currently known as Southwest University of Political Science and Law (西南政法大學)) in Chongqing, the PRC, in July 1990. Mr. Liu obtained a doctor's degree in civil and commercial law from Graduate School of Chinese Academy of Social Sciences (中國社會科學院研究生院) in Beijing, the PRC, in June 1993. Mr. Liu has been a practicing lawyer of the PRC since December 1995.

Mr. Liu worked as an independent non-executive director of the listed companies shown in the table below.

Name of the Company	Place of Establishment	Nature of Business	Term of Service
Beijing Capital Development Co., Ltd. (北京首都開發股份有限公司), listed on the Shanghai Stock Exchange (stock code: 600376).	PRC	Property Development and Sale	August 2010 to August 2016
China Television Media Co., Ltd. (中視傳媒股份有限公司), listed on the Shanghai Stock Exchange (stock code: 600088)	PRC	Advertisement, media, and tourism	June 2010 to June 2016

Mr. WU Jun (吳軍), aged 65, has been an external Supervisor since May 2018. He is primarily responsible for supervising the performance of duties by the Directors and the senior management, financial activities, internal control and risk management of our Bank.

Mr. Wu worked at School of Banking & Finance (金融學院) ("**SoBF**") of University of International Business and Economics for over 25 years since 1992 and once served as deputy professor, professor, Ph.D. supervisor and dean of SoBF.

Mr. Wu was and is an independent non-executive director of the listed companies shown in the table below.

Name of the Company	Place of Establishment	Nature of Business	Term of Service
Southwest Securities International Securities Ltd. (西證國際證券股份有限公司), listed on the Hong Kong Stock Exchange (stock code: 0812).	Bermuda	Financial services	January 2015 to present
Southwest Securities Co., Ltd. (西南證券股份有限公司), listed on the Shanghai Stock Exchange (stock code: 600369)	PRC	Financial services	March 2009 to March 2017

Mr. Wu obtained a junior college (專科) degree in finance from the finance department, Yunnan Finance and Trade College in Yunnan Province, the PRC, in July 1981. He obtained a master's degree in finance from the Finance Research Institute of Head Office of the People's Bank of China (中國人民銀行總行金融研究所) (currently known as PBC School of Finance, Tsinghua University (清華大學五道口金融學院)) in Beijing, the PRC, in July 1987. Mr. Wu obtained a doctor's degree in finance from the Finance Research Institute of Head Office of the People's Bank of China in May 1995.

Mr. LIU Min (劉旻), aged 56, has been an external Supervisor since May 2018. He is primarily responsible for supervising the performance of duties by the Directors and the senior management, financial activities, internal control and risk management of our Bank.

Mr. Liu has about 20 years of experience in accounting. Mr. Liu has been the responsible person of Shanxi Branch, BDO China Shu Lun Pan Certified Public Accountants LLP (立信會計師事務所) (the "**BDO**") since August 2008. He once served as the deputy general manager of Beijing BDO. Prior to that, he was the vice director (副所長) of Taiyuan Certified Public Accountants (太原會計師事務所) from July 1997 to December 1998, the director (所長) of Shanxi Jinyuan Certified Public Accountants (山西晉元會計師事務所) ("**Shanxi Jinyuan**") from January 1999 to December 2000 and the chief accountant (主任會計師) of Shanxi Tianyuan Certified Public Accountants (山西天元會計師事務所) ("**Shanxi Tianyuan**") from January 2001 to May 2005. Shanxi Jinyuan was established in the PRC and it merged with Shanxi Zhongyuan Certified Public Accountants (山西中元會計師事務所) and formed Shanxi Tianyuan as approved by Shanxi Finance Bureau (山西省財政廳) in July 2000. Shanxi Tianyuan was then deregistered voluntarily by the resolutions of the shareholders of the company in July 2005. Shanxi Tianyuan was solvent at the time of deregistration, and he did not incur any debt and/or liabilities because of such deregistration, and that the deregistration did not have any negative effect on the Bank.

Mr. Liu graduated from Shijiazhuang Army Command College, China P.L.A. (中國人民解放軍石家莊陸軍指揮學院) in Hebei Province, the PRC, in July 1982, majoring in military command (軍事指揮). He passed the self-taught higher education exams of accounting at undergraduate level (會計專業本科高等教育自學考試) and was approved for graduation by Shanxi Finance College (山西財經學院) (currently known as Shanxi University of Finance and Economics (山西財經大學)) in Shanxi Province, the PRC, in December 1991. Mr. Liu has been a member of the Chinese Institute of Certified Public Accountants since October 2006. He is also a holder of the certificate of senior level of accounting granted by Department of Human Resources of Shanxi Province (山西省人事廳) in January 2003.

SENIOR MANAGEMENT

The following table sets out certain information regarding our senior management.

Name	Age	Time of joining our Bank	Date of appointment as a member of senior management(1)	Position(s) held at our Bank as of the Latest Practicable Date	Responsibilities
Mr. TANG Yiping (唐一平)	51	August 2016	February 16, 2017	Executive Director, vice chairman of the Board of Directors and president	Responsible for the daily operation and management of our Bank and in charge of the president's office
Mr. RONG Changqing (容常青)	49	May 2018	December 21, 2018	Executive Director and vice president	In charge of the legal and compliance department, retail banking department, personal credit loan assets management department, credit cards department, assets management department and small enterprises financial department
Ms. HAO Qiang (郝強)	46	September 2008	November 20, 2017	Vice president	In charge of the corporate financial department, international business department and investment banking department
Mr. GAO Jiliang (高計亮)	53	February 2009	May 15, 2018	Vice president	In charge of the operation management department, institutional development department, internet and financial department and IT department
Ms. HOU Xiuping (侯秀萍)	51	January 2015	October 8, 2015	Chief financial officer	Responsible for the overall financial management
Mr. ZHANG Yunfei (張雲飛)	48	September 2009	May 26, 2011	Chief risk officer	Responsible for the comprehensive risk management
Mr. WEN Gensheng (溫根生)	53	November 2016	December 8, 2016	Chief human resources officer	Responsible for the management of human resources matters
Mr. ZHAO Jiquan (趙基全)	45	May 2009	April 3, 2019	Chief audit officer (chief compliance officer) and assistant to the president	In charge of the audit department of our Bank

Name	Age	Time of joining our Bank	Date of appointment as a member of senior management(1)	Position(s) held at our Bank as of the Latest Practicable Date	Responsibilities
Mr. ZHAO Fu (趙富)	51	January 2008	April 3, 2019	Chief marketing officer	In charge of the institutional clients department of our Bank
Mr. NIU Jun (牛俊)	51	January 2013	April 3, 2019	Chief operation officer	In charge of Lvliang branch of our Bank
Mr. LI Weiqiang (李為強)	54	March 2011	April 3, 2019	Secretary to the Board of Directors	Responsible for the daily work of the Board of Directors and in charge of the office of the Board of Directors.
Mr. SHANGGUAN Yujiang (上官玉將)	46	October 2012	April 3, 2019	Assistant to the president	In charge of the energy department of our Bank.

Notes:

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 Shanxi Office, except for the date of appointment of Mr. WEN Gensheng, which represents the date on which Mr. Wen was elected as the chief human resources officer at the relevant board meeting of our Bank. The position of chief human resources officer does not require the qualification approval from CBIRC Shanxi Office.

   The qualification of Mr. ZHAO Jiquan as the chief audit officer (chief compliance officer) and assistant to the president, Mr. ZHAO Fu as the chief marketing officer, Mr. NIU Jun as the chief operation officer, Mr. LI Weiqiang as secretary to the Board of Directors and Mr. SHANGGUAN Yujiang as assistant to the president is still subject to the approval of CBIRC Shanxi Office. Therefore, the date of appointment of them represents the date on which each of them was elected by the Board at the relevant board meeting of our Bank.

For biographical details of **Mr. TANG Yiping (唐一平)** and **Mr. RONG Changqing (容常青)**, please see "– Executive Directors" of this section.

Ms. HAO Qiang (郝強), aged 46, has been a vice president of our Bank since November 2017. She is in charge of the corporate financial department, international business department and investment banking department.

Ms. Hao has over 25 years of experience in banking industry. She joined our Bank in September 2008 and worked at the preparatory team of our Bank from September 2008 to May 2009. Afterwards, Ms. Hao served as the general manager of the credit review department (授信審查部) of our Bank from May 2009 to May 2013, as the principal (負責人) and then the president of Jinyang sub-branch of our Bank from May 2013 to January 2015, as the assistant to the president of our Bank and the general manager of the corporate finance department (公司金融部) from January 2015 to November 2017, during which period she was also the general manager of the investment banking department (投資銀行部) of our Bank from April 2015 to January 2017 and as the secretary to the Board of Directors from June 2017 to April 2019. Prior to joining our Bank, Ms. Hao worked at Industrial and Commercial Bank of China Limited (中國工商銀行股份有限公司) ("**ICBC**") (a company listed on the Shanghai Stock Exchange with stock code 601398, and on the Hong Kong Stock Exchange with stock code 1398) from December 1993 to September 2008. She served as an officer of the international business department (國際業務部) of ICBC Taiyuan branch from December 1993 to January 1996. From January 1996 to September 2008, Ms. Hao worked at several departments of ICBC Shanxi branch, including the industry and transportation credit department (工交信貸部), the projects credit section (項目信貸處), the corporate business department (公司業務部) and the credit approval department (授信審批部) and consecutively served as a staff member (科員), a senior staff member (副主任科員), a principal staff member (主任科員) and a full-time reviewer (專職審議委員). Ms. Hao once worked as a senior staff member (副主任科員) of the projects credit department (項目信貸部) at the headquarter of ICBC in 2000.

Ms. Hao obtained a bachelor's degree in English from Shanxi Normal University (山西師範大學) in Shanxi Province, the PRC, in June 1993. She completed the on-the-job postgraduate study in finance of Shanxi University of Finance and Economics (山西財經大學) in Shanxi Province, the PRC, in July 2003. Ms. Hao completed the internal EMBA core courses training program of ICBC and obtained the training certificate in November 2005.

Mr. GAO Jiliang (高計亮), aged 53, has been a vice president of our Bank since May 2018. He is primarily responsible for the operation management department, institutional development department, internet and financial department and IT department.

Mr. Gao has over 25 years of experience in banking industry. He was the chief operation officer of our Bank from October 2015 to April 2019. He was the general manager of small enterprises financial services center (小企業金融服務中心) of our Bank from March 2015 to November 2017. He was the general manager of the corporate finance department (公司金融部) of our Bank from May 2013 to March 2015. From October 2010 to May 2013, Mr. Gao worked as the general manager of small enterprises finance department (小企業金融部) of our Bank. He was also the general manager of small enterprises financial services center of our Bank from June 2012 to May 2013. Mr. Gao worked at the SMEs financial center (中小企業金融服務中心) of our Bank and consecutively served as the principal (負責人) and the general manager from May 2009 to October 2010. He served as the principal (負責人) of the president's office (行長辦公室) and the office of the Board of Directors (董事會辦公室) of our Bank from February 2009 to May 2009. Prior to that, Mr. Gao served as the president of our Jiefang North Road sub-branch (解放北路支行) from October 1998 to February 2009. He worked at Taiyuan South Inner Cycle Street Credit Union (太原市南內環街信用社) as the vice general manager from February 1993 to April 1997 and then as the principal (負責人) from April 1997 to October 1998.

Mr. Gao obtained a bachelor's degree in economics from Shanxi University of Finance and Economics (山西財經學院) in Shanxi Province, the PRC, in July 1985. He obtained a master's degree in economics from Zhongnan University of Economics (中南財經大學) (currently known as Zhongnan University of Economics and Law (中南財經政法大學)) in Hubei Province, the PRC, in June 1994.

Ms. HOU Xiuping (侯秀萍), aged 51, has been the chief financial officer of our Bank since October 2015 and the general manager of the financial accounting department (財務會計部) of our Bank since October 2015. She is primarily responsible for the overall financial management of our Bank.

Ms. Hou has more than 20 years of experience in financial accounting. She worked at the funding financial department of our Bank from January 2015 to October 2015 and served as the department's general manager from April 2015 to October 2015. Prior to joining our Bank, Ms. Hou worked as the general manager of Taigang (Tianjin) Financial Leasing Co., Ltd. (太鋼(天津)融資租賃有限公司) from April 2014 to January 2015. Ms. Hou worked as a director of Taiyuan Steel (Group) Finance Co., Ltd. (太原鋼鐵(集團)財務有限公司) and Shanxi Taigang Insurance Agency Co., Ltd. (山西太鋼保險代理有限公司) from January 2013 to April 2014. Ms. Hou worked at Taiyuan Steel (Group) Co., Ltd. (太原鋼鐵(集團)有限公司) ("**Taiyuan Steel**") as a staff member (科員) of the finance division (財務處) from July 1989 to August 1997, and as a deputy section chief (副科長) of the finance section in Qiya (駐七軋財務科) from August 1997 to June 1998. She worked at Shanxi Taigang Stainless Steel Co., Ltd. (山西太鋼不銹鋼股份有限公司) from June 1998 to June 2008, as the director (主管) of the finance and development department (計財發展部) from June 1998 to May 2004, and as an assistant to head (部長助理) of the finance and development department (計財發展部) from May 2004 to June 2008. She worked at Taiyuan Steel as a deputy head (副部長) of the accounting and finance department (計財部) from June 2008 to April 2014.

Ms. Hou obtained a bachelor's degree in economics from Naikai University (南開大學) in Tianjin, the PRC in July 1989. Ms. Hou obtained a master's degree in business administration from Renmin University of China (中國人民大學) in Beijing, the PRC in July 2000. Ms. Hou is a senior accountant granted by Department of Human Resources of Shanxi Province (山西省人事廳) in December 2001.

Mr. ZHANG Yunfei (張雲飛), aged 48, has been the chief risk officer of our Bank since May 2011. He is primarily responsible for the comprehensive risk management of our Bank.

Mr. Zhang has more than 24 years of experience in banking industry. Mr. Zhang joined our Bank in September 2009 and worked at our Bank's risk management department from September 2009 to January 2014 and served as the general manager of the risk management department of our Bank from May 2013 to January 2014. Prior to joining our Bank, Mr. Zhang worked as a deputy general manager (副總經理) of the credit management department (信貸管理部) and the general manager (總經理) of the small enterprises finance business department (小企業金融業務部) of Shanxi branch of Industrial and Commercial Bank of China Limited (中國工商銀行股份有限公司) ("**ICBC**") (a company listed on the Shanghai Stock Exchange with stock code 601398, and on the Hong Kong Stock Exchange with stock code 1398) from December 2006 to August 2009. Mr. Zhang seconded as a chief reviewer of Credit Review Department (信用審批部主審查人) of ICBC from December 2005 to December 2006. Mr. Zhang worked as a principle staff member (主任科員) of the personal finance business department (個人金融業務部) and a deputy general manager (副總經理) of credit management department (信貸管理部) of ICBC Shanxi branch from December 2003 to December 2005. Mr.

Zhang worked as an assistant to president (行長助理) of ICBC Changzhi branch from July 2002 to December 2003. He served as a senior staff member of the industrial and commercial credit division (工商信貸處) and a senior staff member of the credit management department from November 2000 to July 2002. Mr. Zhang worked as a staff member and then a deputy division director (副處長) of the industrial and commercial credit division (工商信貸處) of ICBC Shanxi branch from June 1998 to November 2000. Mr. Zhang worked as a staff member (科員) of the commercial credit section (商業信貸科) of ICBC Taiyuan branch Jiefang Road office (太原市分行解放路辦事處) from July 1994 to June 1998.

Mr. Zhang obtained a bachelor's degree in international trade from Shanxi Economics Management College (山西經濟管理學院) (currently known as Shanxi University of Finance and Economics (山西財經大學)) in Shanxi Province, the PRC, in July 1994. Mr. Zhang is a middle level economist granted by ICBC in July 1999.

Mr. Zhang received a warning from CBRC Shanxi Office as our chief risk officer in March 2018 due to our head office's failure to properly check underlying assets or ultimate financing parties of relevant SPV investment which resulted in insufficient impairment provision and failure to conduct sufficient due diligence on the use of proceeds of working capital loans.

Mr. WEN Gensheng (溫根生), aged 53, has been the chief human resources officer of our Bank since December 2016. He is primarily responsible for the management of human resources-related matters of our Bank.

Mr. Wen has more than 20 years of experience in administrative management. Mr. Wen joined our Bank in November 2016. He worked as the general manger (head) (總經理(部長)) of the human resources department (organization department of the party committee) (人力資源部(黨委組織部)) from November 2016 to December 2016. Prior to joining our Bank, Mr. Wen worked as a deputy division director (副處長) and researcher (調研員) of the cadre section II (幹部二處) of the organization department of Shanxi Provincial Party Committee (山西省委組織部) from July 2015 to November 2016. Mr. Wen worked as a deputy division director (副處長) and researcher (調研員) of local cadre section (地方幹部處) of the organization department of Shanxi Provincial Party Committee (山西省委組織部) from October 2010 to July 2015. Mr. Wen worked as a principal staff member (主任科員) and a deputy researcher (副調研員) of the organization guide section (組織指導處) of the organization department of Shanxi Provincial Party Committee (山西省委組織部) from July 2003 to October 2010. Mr. Wen worked as a principal staff member (主任科員) of fundamental politics section (基政處) and personnel education section (人事教育處) of Shanxi Civil Affairs Bureau (山西省民政廳) from January 1997 to July 2003.

Mr. Wen graduated from Taiyuan Normal College (太原師範專科學校) in Shanxi Province, the PRC, majoring in geography, in July 1985. Mr. Wen graduated from the Correspondence Institute of the Central Communist Party School of the CPC (中央黨校函授學院) through correspondence study in December 1996, majoring in economics management.

Mr. ZHAO Jiquan (趙基全), aged 45, was appointed as the chief audit officer (chief compliance officer), and the assistant to the president of our Bank in April 2019. He is primarily in charge of the audit department of our Bank.

Mr. Zhao has over 13 years of experience in banking industry. He has been the candidate of general manager of the audit department of our Bank since April 2019. Mr. Zhao joined our Bank in May 2009. Mr. Zhao worked as the candidate of the president (行長擬聘人選) and then the president of Linfen branch (臨汾分行) of our Bank from January 2014 to January 2015 and then as the president of Jinyang sub-branch (晉陽支行) of our Bank from January 2015 to April 2019. He worked at the audit department of our Bank from May 2009 to June 2010. He worked as the general manager of the internal control department of our Bank from June 2010 to May 2013, during which period he also served as the general manager of the audit department of our Bank from November 2011 to May 2013. He served as the general manager of the credit review department of our Bank from May 2013 to January 2014. Prior to joining our Bank, Mr. Zhao worked at Shanxi Provincial Agricultural Credit Cooperative (山西省農村信用社聯合社) as a vice general manager (副總經理) of the due diligence department (稽核部) from November 2005 to May 2009. He worked as a principal staff member (主任科員) of the working division of the board of supervisors (監事會工作處) of Shanxi SASAC from May 2004 to November 2005 and during this period he also once served as the chief accountant (總會計師) of Shanxi Guorui Investment Co., Ltd. (山西國瑞投資有限公司). He consecutively served as a senior staff member (副主任科員) and principal staff member (主任科員) of the working division of the board of supervisors (監事會工作處) of Shanxi Enterprises Working Committee (山西省企業工作委員會) from November 2000 to April 2004. Mr. Zhao worked as a senior staff member (副主任科員) of the finance division (財務處) of Shanxi Province Textile Union (山西省紡織總會) from May 1998 to November 2000, and served as an officer (幹部) of the finance department (財務部) of Taiyuan Heavy Machinery Group Co., Ltd. (太原重型機械集團有限公司) (a company listed on the Shenzhen Stock Exchange with stock code 600169) from July 1996 to May 1998.

Mr. Zhao earned a master's degree in engineering from Shanxi University (山西大學) in Shanxi Province, the PRC in June 2012. He obtained a bachelor's degree in economics from Lanzhou University (蘭州大學) in Gansu Province, the PRC in June 1996. Mr. Zhao has been a non-practicing member of the Chinese Institute of Certified Public Accountants since December 2001. Mr. Zhao was certified as a senior accountant by the Shanxi Senior Accountants Technical Position Evaluation Committee (山西省高級會計師技術職務評審委員會) in December 2003 and was awarded the Certificate for Chinese Registered Financial Analysts (Level II) (中國註冊金融分析師(二級)證書) by the China Enterprise Confederation (中國企業聯合會) in September 2010.

Mr. ZHAO Fu (趙富), aged 51, was appointed as the chief marketing officer of our Bank in April 2019. He is in charge of the institutional clients department of our Bank.

Mr. Zhao has over 30 years of experience in banking industry. He has been the general manager of the institutional clients department of our Bank since April 2019. Mr. Zhao joined our Bank in January 2008. Mr. Zhao worked as the general manager of the personal finance department (個人金融部) of Taiyuan City Commercial Bank Co., Ltd. (太原市商業銀行股份有限公司) from January 2008 to May 2009. He worked at our credit cards business department from May 2009 to February 2011, during which period he served as the vice general manager of our credit cards business department from August 2009 to February 2011 and also as the vice general manager of our retail banking department from June 2010 to February 2011. He served as a member of the preparatory team (籌備組) of our Datong branch (大同分行) from February 2011 to July 2012, as the president of our Datong branch (大同分行) from July 2012 to January 2014, as the president of our Taiyuan Longcheng sub-branch (太原龍城支行) from January 2014 to February 2018 and as the president of our Taiyuan Transformation and Comprehensive Reform Demonstration Zone sub-branch (太原綜改示範區支行) from February 2018 to March 2019. Prior to joining our Bank, Mr. Zhao once served as the vice general manager (副總經理) of retail banking department (零售銀行部) of Taiyuan branch (太原分行) of China Merchants Bank Co. Ltd. (招商銀行股份有限公司) (a company listed on the Hong Kong Stock Exchange with stock code 03968). Mr. Zhao worked at Industrial and Commercial Bank of China Limited (中國工商銀行股份有限公司) ("**ICBC**") (a company listed on the Shanghai Stock Exchange with stock code 601398, and on the Hong Kong Stock Exchange with stock code 1398) from August 1987 to May 2007. He worked as a vice president of ICBC Datong Mining Bureau sub-branch (大同市礦務局支行) from February 2006 to May 2007. Mr. Zhao served as the president of ICBC Datong Mudan sub-branch (大同市牡丹支行) from June 2005 to February 2006. He served as the president of ICBC Datong Yuhe North Road sub-branch (大同市御河北路支行) from May 2002 to June 2005. He worked as the director (主任) of ICBC Datong branch Yunzhong Mall sub-operating office (大同市分行雲中商城分理處) from June 2000 to May 2002. He worked at ICBC Datong branch (大同市分行) and served as the deputy manager (副經理) of the marketing development department (市場開發部) from July 1997 to January 1999 and then as a deputy section chief (副科長) of the corporate deposit section (對公存款科) from January 1999 to June 2000. He worked at the ICBC Datong branch Yuhe North Road sub-branch (大同分行御河北路支行) and served as the section chief (科長) of the secretarial section (秘書科) from June 1993 to July 1995 and then as the manager of the management department (管理部) from July 1995 to July 1997. Mr. Zhao worked at the business department (營業部) of ICBC Yanbei district central sub-branch (雁北地區中心支行) and served as an accountant (會計員) of the accounting segment (會計股) from August 1987 to April 1988, as a clerk (幹事) of the secretarial segment (秘書股) from April 1988 to September 1988, as the credit clerk (信貸員) of the credit segment (信貸股) from September 1988 to October 1992, and as the deputy section chief (副科長) of the secretarial section (秘書科) from October 1992 to June 1993.

Mr. Zhao completed junior college level (專科) studies and graduated from Shanxi Finance and Economics College (山西財經學院) (currently known as Shanxi University of Finance and Economics (山西財經大學)) in Shanxi Province, the PRC in December 1990, majoring in finance. Mr. Zhao graduated from Correspondence Institute of the Central Committee Party School of the CPC (中共中央黨校函授學院) through correspondence study in December 2000, majoring in economics management. Mr. Zhao completed top-up (專升本) studies and graduated from Central Broadcasting and Television University (中央廣播電視大學) (currently known as The Open University of China (國家開放大學)) in June 2005, majoring in finance. Mr. Zhao obtained a master's degree in control engineering from Shanxi University (山西大學) in Shanxi Province, the PRC in June 2013. Mr. Zhao was certified as an economist by ICBC Shanxi branch in December 1994.

Mr. NIU Jun (牛俊), aged 51, was appointed as the chief operation officer of our Bank in April 2019. He is currently in charge of Lvliang branch (呂梁分行) of our Bank.

Mr. Niu has over 30 years of experience in banking industry. He has been the president of Lvliang branch (呂梁分行) of our Bank since April 2019. Mr. Niu joined our Bank in January 2013. Mr. Niu worked as the president of Longcheng sub-branch (太原龍城支行) of our Bank from February 2018 to April 2019. He consecutively served as the leader of the preparatory group (籌備組) of Xinzhou branch (忻州分行) of our Bank from January 2013 to August 2013 and as a vice president and then the president of Xinzhou branch (忻州分行) of our Bank from August 2013 to February 2018. Prior to joining our Bank, Mr. Niu worked at Agricultural Bank of China Limited (中國農業銀行股份有限公司) ("**ABC**") (a company listed on the Shanghai Stock Exchange with stock code 601288, and on the Hong Kong Stock Exchange with stock code 1288) for approximately 20 years. He was appointed as the president of ABC Dai County sub-branch (代縣支行) in January 2008. He worked as a vice president and then the president of ABC Yuanping sub-branch (原平市支行) from July 2003 to January 2008. He served as a vice president of ABC Dai County sub-branch (代縣支行) from January 1999 to July 2003. Mr. Niu served as the deputy director (副主任) and then the director (主任) of Xingao business office (新高營業所) of ABC Dai County sub-branch (代縣支行) from September 1988 to January 1999.

Mr. Niu completed junior college level (專科) studies and graduated from Renmin University of China (中國人民大學) in Beijing, the PRC in 1994, majoring in administrative management. Mr. Niu graduated from Shanxi University (山西大學) in Shanxi Province, the PRC in December 2001, majoring in administrative management.

Mr. LI Weiqiang (李為強), aged 54, was appointed as the secretary of the Board of Directors in April 2019. He is primarily responsible for the daily work of the Board of Directors and in charge of the office of the Board of Directors.

Mr. Li has more than 30 years of experience in banking industry. Mr. Li has been the director (主任) of the president's office (行長辦公室) of our Bank since February 2012. He served as an employees' representative Supervisor from January 2016 to May 2019. From March 2011 to February 2012, he was also the director (主任) of the assessment office (考核辦公室) of our Bank. He served for Agricultural Bank of China Co., Ltd. (中國農業銀行股份有限公司) ("**ABC**") before joining our Bank. From January 2007 to July 2011, he was the director (處長) of credit management division (信貸管理處) in ABC Shanxi branch. From December 2003 to January 2007, Mr. Li was the deputy director and then the director of the party committee office (黨委辦公室) of ABC Shanxi branch. Mr. Li was a vice president (副行長) of ABC Yangquan branch from October 1998 to December 2003. He was the office director of ABC Yangquan branch from February 1997 to October 1998. Before that, he worked as a vice president of ABC Yangquan suburban district sub-branch from November 1995 to February 1997. Mr. Li served as the office staff member (辦公室科員) and then the deputy director (副主任) of ABC Yangquan branch from July 1988 to November 1995.

Mr. Li obtained a bachelor's degree from Hebei Finance College (河北財經學院) (currently known as Hebei University of Economics and Business (河北經貿大學)) in Hebei Province, the PRC, in July 1988, majoring in rural finance (農村金融). He is a senior economist (高級經濟師) granted by ABC in December 2001.

Mr. SHANGGUAN Yujiang (上官玉將), aged 46, was appointed as assistant to the president of our Bank in April 2019. He is primarily in charge of the energy department of our Bank.

Mr. Shangguan has about 25 years of experience in banking industry. He has been the president of Bingzhou branch (並州支行) of our Bank since January 2018. He served as an employees' representative Supervisor from June 2018 to May 2019. From October 2012 to January 2018, Mr. Shangguan worked at Changzhi branch (長治分行) of our bank, as the leader of the preparatory team from October 2012 to August 2013, as a vice president from August 2013 to July 2015, and as the president from July 2015 to January 2018. Prior to joining our Bank, Mr. Shangguan worked for China Bohai Bank Co., Ltd. (渤海銀行股份有限公司) ("**Bohai Bank**") from December 2007 to October 2012, as an account manager (客戶經理) of the corporate business department (公司業務部) at Beijing branch, Bohai Bank from December 2007 to October 2008, as an account manager at Weigongcun branch (魏公村支行), Bohai Bank from October 2008 to November 2009, as the deputy general manger of the risk management department and the corporate business management department (公司業務管理部) at Beijing branch, Bohai Bank from November 2009 to October 2012. He was the president of rural area sub-branch (郊區支行), Changzhi City Commercial Bank Co., Ltd. (長治市商業銀行股份有限公司) ("**Changzhi City Commercial Bank**") from August 2007 to November 2007. From March 2003 to August 2007, Mr. Shangguan worked as the president of Taixi sub-branch (太西支行), Changzhi City Commercial Bank. Mr. Shangguan worked as an assistant to thedirector (主任助理) of Yingxiong Road Urban Credit Cooperative (英雄路城市信用社) from March 2001 to March 2003. He served as an assistant to the director (主任助理) of Square Urban Credit Cooperative (廣場城市信用社) from September 1999 to March 2001. He worked at Taihang Road Urban Credit Cooperative (太行路城市信用社) from August 1995 to August 1999 and consecutively served as accounting section chief (會計科長), the director of operation office (營業室主任) and an assistance to the director (主任助理).

Mr. Shangguan completed studies at junior college level (專科) through correspondence study and graduated from Shanxi University of Finance and Economics (山西財經大學) in Shanxi Province, the PRC, in July 1999, majoring in accounting. He graduated from Beijing Institute of Technology (北京理工大學) in Beijing, the PRC, in July 2007, majoring in business administration. Mr. Shangguan obtained a master's degree in business administration from Xiamen University (廈門大學) in Fujian Province, the PRC, in September 2018. He is a middle level economist granted by Ministry of Human Resources of the PRC (中華人民共和國人事部) in November 2000.

JOINT COMPANY SECRETARIES

Ms. HAO Qiang (郝強) was appointed on January 25, 2019 as one of the joint company secretaries of our Bank. For biographical details of Ms. Hao, please see "– Senior Management" above in this section.

Ms. YEUNG Ching Man (楊靜文), aged 34, was appointed on January 25, 2019 as one of the joint company secretaries of our Bank. Mr. Yeung currently serves as a vice president of SW Corporate Services Group (Hong Kong) Ltd. (方圓企業服務集團(香港)有限公司) ("**SWCS**"), where she is responsible for managing the company secretarial and compliance work for listed clients of SWCS. Prior to joining SWCS, Ms. Yeung worked for an international accounting firm and the listing division of the Hong Kong Stock Exchange for over 12 years.

Ms. Yeung obtained a bachelor's degree in business administration from Chinese University of Hong Kong (香港中文大學) in May 2006. She further obtained a master's degree in corporate and financial law from University of Hong Kong (香港大學) in December 2014. Ms. Yeung is currently a member of the Hong Kong Institute of Certified Public Accountants.

COMMITTEES UNDER THE BOARD OF DIRECTORS

Our Board of Directors currently has the following committees: the Development and Strategy Committee, the Audit Committee, the Risk Management Committee, the Related Parties Transactions Control Committee, the Nomination, Remuneration and HR Committee, and the Consumer Rights Protection Committee. The committees operate in accordance with their respective terms of reference established by our Board of Directors.

Development and Strategy Committee

Our Board of Directors has established a Development and Strategy Committee with written terms of reference. The Development and Strategy Committee consists of five Directors, being Mr. YAN Junsheng, Mr. JIN Haiteng, Mr. TANG Yiping, Mr. LI Shishan and Mr. DUAN Qingshan. The chairperson of the Development and Strategy Committee is Mr. YAN Junsheng. The primary duties of the Development and Strategy Committee are as follows:

- formulating our development strategies and operational objectives, and making relevant recommendations to the Board of Directors;
- reviewing our annual budgets, strategic asset allocation plans, goals for assets and liabilities management, and development plans on various matters, and making relevant recommendations to the Board of Directors;
- making recommendations on plans for our organizational re-construction, material investment plans and merger and acquisition plans to the Board of Directors;

- assessing the soundness of our corporate structure to improve our financial reports, risk management and internal control in accordance with the standards of our corporate governance policies, and supervising the implementation of our annual operational and investment plans; and

- performing other responsibilities as authorized by the Board of Directors and in accordance with applicable laws and regulations.

Audit Committee

Our Board of Directors has established an Audit Committee with written terms of reference in compliance with the requirements under the Listing Rules. The Audit Committee consists of five Directors, being Mr. WANG Liyan, Mr. SAI Zhiyi, Mr. LIU Chenhang, Mr. SUN Shihu and Mr. YE Xiang. The chairperson of the Audit Committee is Mr. WANG Liyan. The primary duties of the Audit Committee are as follows:

- reviewing our risk management and compliance conditions, accounting policies, financial conditions and financial report procedures;

- conducting inspections on our risk control system to make sure that the management has established an effective system;

- conducting inspections and reviewing the compliance and effectiveness of our material operational activities;

- being responsible for our annual audit work and material adjustments regarding the same;

- supervising the completeness of the audited financial reports, reviewing such reports before submitting them to our Board of Directors for review;

- making recommendations on appointment, re-appointment or removal of external auditors, and communicating with the external auditors on behalf of the Bank and providing responses to their management letter;

- raising concerns about possible improprieties in financial reporting, internal control or other matters, and making sure that proper arrangements are in place for fair and independent investigations; and

- performing other responsibilities as authorized by the Board of Directors and in accordance with applicable laws and regulations.

Risk Management Committee

Our Board has established a Risk Management Committee with written terms of reference. The Risk Management Committee consists of five Directors, being Mr. SAI Zhiyi, Mr. JIN Haiteng, Mr. TANG Yiping, Mr. WANG Jianjun and Mr. DUAN Qingshan. The chairperson of the Risk Management Committee is Mr. SAI Zhiyi. The primary duties of the Risk Management Committee are as follows:

- reviewing our overall risk management policies, measures and preferences in relation to various risks, and assessing the control over these risks by our senior management;
- periodically conducting assessment and listening to reports on our risk policies, management status and risk tolerance ability;
- formulating working procedures and evaluating the working proficiency of our internal audit department and advising on improvement of our risk management and internal control system;
- conducting preliminary examination of the identification of various types of transactions, reviewing such transactions and providing opinions in relation to such transactions;
- performing other responsibilities as authorized by the Board of Directors and in accordance with applicable laws and regulations.

Related Parties Transactions Control Committee

Our Board has established a Related Parties Transactions Control Committee with written terms of reference. The Related Parties Transactions Control Committee consists of five Directors, being Mr. JIN Haiteng, Mr. SUN Shihu, Mr. WANG Peiming, Mr. RONG Changqing and Mr. WANG Liyan. The chairperson of the Related Parties Transactions Control Committee is Mr. JIN Haiteng. The primary duties of the Related Parties Transactions Control Committee are as follows:

- assisting the Board of Directors in performing responsibilities in relation to related parties transactions and connected transactions in accordance with applicable laws and regulations;
- reviewing, supervising and approving the lists of related parties and connected persons, and the identification and management of related parties transactions and connected transactions, so as to control risks in relation to such transactions;

- examining and supervising the control over our related parties transactions and connected transactions and the implementation of systems in relation to related parties transactions and connected transactions, and reporting to the Board of Directors;

- being responsible for the information disclosure of our related parties transactions and connected transactions, and the authenticity, accuracy and completeness of the information in relation to such transactions; and

- performing other responsibilities as authorized by the Board of Directors and in accordance with applicable laws and regulations.

Nomination, Remuneration and HR Committee

Our Board has established a Nomination, Remuneration and HR Committee with written terms of reference in compliance with the requirements under the Listing Rules. The Nomination, Remuneration and HR Committee consists of five Directors, being Mr. DUAN Qingshan, Mr. JIN Haiteng, Mr. YAN Junsheng, Mr. XIANG Lijun and Mr. SAI Zhiyi. The chairperson of the Nomination, Remuneration and HR Committee is Mr. DUAN Qingshan. The primary duties of the Nomination, Remuneration and HR Committee are as follows:

Nomination Duties

- formulating the criteria and procedures for selecting directors and senior management personnel for approval by the Board of Directors;

- periodically making recommendations on the size and composition of our Board of Directors in accordance with our development strategies;

- identifying qualified individuals as directors, the president of our Bank, the chief audit officer, and the secretary to the Board of Directors, conducting preliminary examination of qualifications and conditions of candidates for directorships and senior management positions, and making recommendations to our Board of Directors;

- assessing the independence of independent non-executive Directors;

- making recommendations on the appointment, re-appointment of directors to our Board of Directors; and

- formulating training plans for senior management and key personnel of our Bank.

Remuneration and Appraisal Duties

- making recommendations to our Board of Directors on the policy and structure for remunerations of directors and senior management, and on the establishment of a formal and transparent procedures for developing remuneration policy;

- reviewing and approving the management's remuneration proposals with reference to the Board of Directors' corporate goals and objectives;

- formulating the remuneration packages of directors and senior management, making recommendations to our Board of Directors regarding such packages, submitting to the Shareholders' general meeting for approval, and supervising the implementation of the same;

- reviewing our remuneration policies, contemplating the criteria for appraising directors and senior management, conducting assessment and evaluation and making recommendations to our Board of Directors according to our actual conditions;

- reviewing and approving compensation payable to executive directors and senior management for any loss or termination of office, to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

- reviewing and approving compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

- performing other responsibilities as authorized by the Board of Directors and in accordance with applicable laws and regulations.

Consumer Rights Protection Committee

Our Board has established a Consumer Rights Protection Committee with written terms of reference. The Consumer Rights Protection Committee consists of five Directors, being Mr. SUN Shihu, Mr. WANG Liyan, Mr. TANG Yiping, Mr. LI Yang and Mr. SAI Zhiyi. The chairperson of the Consumer Rights Protection Committee is Mr. SUN Shihu. The primary duties of the Consumer Rights Protection Committee are as follows:

- being responsible for formulating the strategies, policies and goals of our consumer rights protection work;

- supervising our senior management to effectively implement consumer rights protection work;

- periodically listening to special reports on consumer rights protection work, supervising and evaluating the comprehensiveness, promptness, and effectiveness of our consumer rights protection work and the performance of the senior management, and submitting the relevant reports to our Board of Directors; and

- performing other responsibilities as authorized by the Board of Directors and in accordance with applicable laws and regulations.

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 five Supervisors, being Mr. WU Jun, Mr. XIE Liying, Mr. BI Guoyu, Mr. LIU Min and Mr. WEN Qingquan. The chairperson of the nomination committee is Mr. WU Jun. The primary duties of the nomination committee are as follows:

- instructing the formulation of criteria and procedures for selecting supervisors;

- conducting preliminary examination of qualifications and conditions of supervisor candidates, and making recommendations to our Board of Supervisors;

- formulating the assessment plans for supervisors, conducting assessment for supervisors, and raising preliminary assessment opinions;

- formulating the remuneration packages for supervisors, making recommendations to the Board of Supervisors in relation to such packages, and submitting to the Shareholders' general meeting for approval;

- periodically assessing the performance of directors and senior management and reporting to the Shareholders' general meeting;

- conducting preliminary review on resignations or removals of supervisors, and making recommendations to the Board of Supervisors; and

- performing other responsibilities as authorized by the Board of Supervisors.

Supervision Committee

Our Board of Supervisors has established a supervision committee with written terms of reference. The supervision committee consists of five Supervisors, being Mr. LIU Shoubao, Mr. BI Guoyu, Ms. XU Jin, Mr. XIA Guisuo and Mr. GUO Zhenrong. The chairperson of the supervision committee is Mr. LIU Shoubao. The primary duties of the supervision committee are as follows:

- supervising the formulation of supervision and examination plans, and the implementation of supervision on our operational decisions, financial activities, risk management and internal control;
- making recommendations on penalties over violations of applicable laws, regulations and rules by the Board of Directors and senior management;
- supervising the issuance of written reports by the office of the Board of Supervisors on financial reports and distribution plans;
- conducting preliminary review on removals of independent non-executive directors, and making recommendations to the Board of Supervisors regarding such removals;
- supervising other relevant matters which are material to our business and operation; and
- performing other responsibilities as authorized by the Board of Supervisors.

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, Remuneration and HR 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, Remuneration and HR 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 15 members, including four executive Directors, five non-executive Directors and six independent non-executive Directors. Our Directors have a balanced mix of experience, including banking, corporate/economics/administrative management, auditing, accounting and finance. Furthermore, the Board has a relatively wide range of age, ranging from 32 years old to 74 years old. Taking into account the Bank's existing business model and meritocracy of our Directors, despite lack of female representation on the Board, our Directors consider that the current composition of the Board satisfies the principals under the Board Diversity Policy. Nevertheless, in recognizing the particular importance of gender diversity, the Nomination, Remuneration and HR Committee will use its best efforts to identify and recommend suitable female candidates to the Board for its consideration and the Bank aims to appoint at least one female Director by the end of 2020. The Bank will use its best efforts to achieve at least 15% female representation in the Board within five years of Listing.

Going forward, to develop a pipeline of potential successors to the Board that could ensure gender diversity of the Board in a few years' time, the Bank will (i) consider the possibility nominating female senior management who has the necessary skills and experience to the Board; (ii) ensure that there is gender diversity when recruiting staff at mid to senior level; and (iii) engage more resources in training female staff with the aim of promoting them to the senior management or directorship of the Bank.

COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The compensation and remuneration of our Directors and 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. We also reimburse them for expenses which are necessary and reasonably incurred in providing services to us or discharging their duties in relation to our operations. When reviewing and determining the specific remuneration packages for our Directors, Supervisors and members of the senior management, our Shareholders' general meetings and the Board of Directors take into consideration factors such as salaries paid by comparable companies, time commitment, level of responsibilities and desirability of performance-based remuneration. As required by PRC laws and regulations, we also participate in various defined contribution plans organized by relevant provincial and municipal government authorities and welfare schemes for our employees, including medical insurance, injury insurance, unemployment insurance, pension insurance, maternity insurance, housing provident fund and enterprise annuity.

Our Bank offers our executive Directors, employees' representative Supervisors and senior management members, who are also our employees, compensation in the form of salaries, social security, housing provident fund, enterprise annuity and other benefits. Our independent non-executive Directors and external Supervisors receive fixed compensation.

The aggregate amounts of remuneration paid by us to our Directors and Supervisors for the years ended December 31, 2016, 2017 and 2018 were approximately RMB6.06 million, RMB11.02 million, and RMB9.28 million respectively.

The aggregate amounts of remuneration paid by us to our five highest paid individuals for the years ended December 31, 2016, 2017 and 2018 were approximately RMB13.02 million, RMB13.99 million, and RMB13.51 million respectively.

It is estimated that remuneration equivalent to approximately RMB4.78 million in aggregate will be paid to the Directors and Supervisors by our Bank in 2019 based on the arrangements in force as of the date of this prospectus.

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, no other payments have been paid or are payable, in the years ended December 31, 2016, 2017 and 2018, 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 Group 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 Domestic Shares within the meaning of Part XV of the SFO, please see "Appendix VII – Statutory and General Information" to this prospectus.

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 Lego Corporate Finance Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules, and the compliance advisor will advise our Bank 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 that is different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecasts, estimates 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.

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 RMB4,868,000,000 divided into 4,868,000,000 Domestic Shares with a nominal value of RMB1.00 each. So far as the Directors are aware, immediately following the completion of the Global Offering, 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**
SSCIO[(1)]	Interest in controlled corporations	Domestic Shares	1,406,430,741	24.55%	28.89%	24.01%	28.89%
Shanxi Financial Investment Holding Group Co., Ltd. (山西金融投資控股集團有限公司)	Beneficial owner	Domestic Shares	715,109,200	12.48%	14.69%	12.21%	14.69%
China Huaneng Group Co., Ltd. (中國華能集團有限公司)[(2)]	Interest in controlled corporation	Domestic Shares	600,000,000	10.47%	12.33%	10.24%	12.33%
Huaneng Capital Service Co., Ltd. (華能資本服務有限公司)	Beneficial owner	Domestic Shares	600,000,000	10.47%	12.33%	10.24%	12.33%
Taiyuan Municipal Finance Bureau (太原市財政局)	Beneficial owner	Domestic Shares	466,142,486	8.14%	9.58%	7.96%	9.58%
Mr. LI Yang (李楊)[(3)]	Interest in controlled corporation	Domestic Shares	685,227,255	11.97%	14.08%	11.70%	14.08%

				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**
Changzhi Nanye Industry Group Co., Ltd. (長治市南燁實業集團有限公司)[(3)]	Beneficial owner	Domestic Shares	450,657,435	7.87%	9.26%	7.69%	9.26%
	Interest in controlled corporation	Domestic Shares	234,569,820	4.10%	4.82%	4.00%	4.82%
Ms. WANG Yanli (王岩莉)[(3)]	Interest in controlled corporations	Domestic Shares	685,227,255	11.97%	14.08%	11.70%	14.08%
Changzhi Huashengyuan Mining Industry Co., Ltd. (長治市華晟源礦業有限公司)[(3)]	Beneficial Owner	Domestic Shares	234,569,820	4.10%	4.82%	4.00%	4.82%
	Interest in controlled corporation	Domestic Shares	450,657,435	7.87%	9.26%	7.69%	9.26%
Shanxi Lu'an Mining (Group) Co., Ltd. (山西潞安礦業(集團)有限責任公司).	Beneficial owner	Domestic Shares	359,091,687	6.27%	7.38%	6.13%	7.38%
Jinneng Group Co., Ltd. (晉能集團有限公司)[(4)].	Interest in controlled corporation	Domestic Shares	300,000,000	5.24%	6.16%	5.12%	6.16%
Shanxi International Electricity Group Limited Company (山西國際電力集團有限公司) . . .	Beneficial owner	Domestic Shares	300,000,000	5.24%	6.16%	5.12%	6.16%
Shanxi Coking Coal Group Co., Ltd. (山西焦煤集團有限責任公司) . . .	Beneficial owner	Domestic Shares	291,339,054	5.09%	5.98%	4.97%	5.98%

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
Shanxi Qinxin Energy Group Co., Ltd. (山西沁新能源集團股份有限公司)(5)	Beneficial Owner	H Shares	100,589,000	1.76%	11.70%	1.72%	10.17%
Taiyuan Industrial Park Investment Holdings Co., Ltd. (太原工業園區投資控股有限公司)(6)	Beneficial Owner	H Shares	100,589,000	1.76%	11.70%	1.72%	10.17%
Chenxing Real Estate Development Co., Ltd. (辰興房地產發展有限公司)(7)	Beneficial Owner	H Shares	44,259,000	0.77%	5.15%	0.76%	4.48%

Notes:

(1) Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), SSCIO indirectly held 1,406,430,741 Domestic Shares, representing 24.55% equity interest in our Bank. SSCIO's shareholding in our Bank was held through several subsidiaries, including (i) Shanxi Lu'an Mining (Group) Co., Ltd. (山西潞安礦業(集團)有限責任公司) with 6.27% equity interest in our Bank, (ii) Shanxi Coking Coal Group Co., Ltd. (山西焦煤集團有限責任公司) with 5.09% equity interest in our Bank, (iii) Shanxi International Electricity Group Limited Company (山西國際電力集團有限公司) with 5.24% equity interest in our Bank; (iv) Taiyuan Steel (Group) Co., Ltd. (太原鋼鐵(集團)有限公司) with 3.49% equity interest in our Bank; (v) Shanxi Jincheng Anthracite Coal Mining Group Co., Ltd. (山西晉城無煙煤礦業集團有限責任公司) with 3.49% equity interest in our Bank; and (vi) Shanxi Investment Group Co., Ltd. (山西省投資集團有限公司) with 0.98% equity interest in our Bank.

(2) Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), China Huaneng Group Co., Ltd. indirectly held 600,000,000 Domestic Shares, representing 10.47% equity interest in our Bank through Huaneng Capital Service Co., Ltd., in which China Huaneng Group Co., Ltd. held 61.22% equity interest. By virtue of SFO, China Huaneng Group Co., Ltd. is deemed to be interested in the Domestic Shares held by Huaneng Capital Service Co., Ltd.

(3) As of the Latest Practicable Date, Mr. Li Yang held 90% equity interest in Changzhi Nanye Industry Group Co., Ltd. ("**Changzhi Nanye**") and Ms. Wang Yanli held 70% equity interest in Changzhi Huashengyuan Mining Industry Co., Ltd. ("**Changzhi Huashengyuan**").

Changzhi Nanye and Changzhi Huashengyuan are parties acting-in-concert according to their respective confirmation. Therefore, immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), each of Mr. Li Yang, Ms. Wang Yanli, Changzhi Nanye and Changzhi Huashengyuan will be deemed to be interested in 685,227,255 Domestic Shares, representing approximately 11.97% equity interest in our Bank. By virtue of SFO, each of Mr. Li Yang and Ms. Wang Yanli is deemed to be interested in the Domestic Shares held by both Changzhi Nanye and Changzhi Huashengyuan, while Changzhi Nanye and Changzhi Huashengyuan are deemed to be interested in the Domestic Shares held by each other.

(4) Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), Jinneng Group Co., Ltd., a subsidiary of SSCIO with 64% equity interest, indirectly held 300,000,000 Domestic Shares, representing 5.24% equity interest in our Bank through its wholly-owned subsidiary, Shanxi International Electricity Group Limited Company. By virtue of SFO, Jinneng Group Co., Ltd. is deemed to be interested in the Domestic Shares held by Shanxi International Electricity Group Limited Company.

(5) Shanxi Qinxin Energy Group Co., Ltd. (山西沁新能源集團股份有限公司) is a cornerstone investor of the Bank and has agreed to invest US$50 million to subscribe for the Offer Shares. The relevant Shares calculated herein are based on (a) an exchange rate of HK$7.8259 to US$1.00; and (b) the Offer Price of HK$3.89 (being the mid-point of the indicative Offer Price range), and subject to the rounding down to the nearest whole board lot of 1,000 H Shares.

(6) Taiyuan Industrial Park Investment Holdings Co., Ltd. (太原工業園區投資控股有限公司) is a cornerstone investor of the Bank and has agreed to invest US$50 million to subscribe for the Offer Shares. The relevant Shares calculated herein are based on (a) an exchange rate of HK$7.8259 to US$1.00; and (b) the Offer Price of HK$3.89 (being the mid-point of the indicative Offer Price range), and subject to the rounding down to the nearest whole board lot of 1,000 H Shares.

(7) Chenxing Real Estate Development Co., Ltd. (辰興房地產發展有限公司) is a cornerstone investor of the Bank and has agreed to invest US$22 million to subscribe for the Offer Shares. The relevant Shares calculated herein are based on (a) an exchange rate of HK$7.8259 to US$1.00; and (b) the Offer Price of HK$3.89 (being the mid-point of the indicative Offer Price range), and subject to the rounding down to the nearest whole board lot of 1,000 H Shares.

As of the Latest Practicable Date, the total issued share capital of our Bank was RMB4,868,000,000 divided into 4,868,000,000 Domestic Shares with a nominal value of RMB1.00 each.

Immediately following completion of the Global Offering 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	4,868,000,000	84.99%
H Shares to be issued pursuant to the Global Offering	860,000,000	15.01%
Total	5,728,000,000	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	4,868,000,000	83.11%
H Shares to be issued pursuant to the Global Offering	989,000,000	16.89%
Total	5,857,000,000	100.00%

SHARES OF OUR BANK

Upon completion of the Global Offering, 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, the 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 the 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 Shares representing no more than 20% of each of the existing issued Domestic Shares and H Shares upon approval by a special resolution of the Shareholders at a Shareholders' general meeting, either separately or concurrently once every 12 months; (ii) our Bank's plan to issue Domestic Shares and H Shares at the time of our establishment is implemented within

15 months from the date of approval by the securities regulatory authorities of the State Council; or (iii) Shareholders convert our unlisted Shares into overseas listed Shares for listing and trading abroad upon the approval by the relevant banking regulatory authorities of the State Council and the securities regulatory authorities of the State Council.

RANKING

Pursuant to the Articles of Association, the Domestic Shares and the 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, the Domestic Shares and the 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 the 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 THE DOMESTIC SHARES INTO H SHARES

Upon completion of the Global Offering, 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 the 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 the 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.

LOCK-UP PERIODS

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 the H Shares will be subject to such statutory restriction on transfer within a period of one year from the Listing Date.

Our Directors, Supervisors and members of the senior management shall declare their shareholdings in our Bank and any changes in their shareholdings. Shares transferred by our Directors, Supervisors and members of the senior management each year during their term of office shall not exceed 25% of their total respective shareholdings in our Bank. The Shares that the aforementioned persons held in our Bank cannot be transferred within one year from the date on which the Shares are listed and traded on a stock exchange, nor within half a year after they leave their positions in our Bank. The Articles of Association may contain other restrictions on the transfer of our Shares held by our Directors, Supervisors and members of the senior management.

Pursuant to section 2 of paragraph (3) of Article 2 of the Notice on the Regulation of Internal Staff Shares in Financial Enterprises (《關於規範金融企業內部職工持股的通知》), for the regulation of the listing and circulation of internal staff shares and the strengthening of the management of secondary market circulation of such, a financial enterprise (which is listed or will be listed in the future) shall take steps to regulate the secondary market circulation of its internal staff shares which are held by its senior management, or individuals holding more than 50,000 internal staff shares. The aforementioned members of the senior management and individuals shall undertake not to transfer the shares held by them within three years from the date of listing of the financial enterprise. After the lapse of the lock-up period, the shares transferred by each of them in each year shall not exceed 15% of their respective total shareholdings in the financial enterprise. The aggregate number of shares transferred by them within five years of the lapse of the lock-up period shall not exceed 50% of their respective total shareholdings in the financial enterprise. Apart from the six-month lockup on our Bank's issue of Shares and the 12-month lock-up on the controlling shareholders' disposal of shares, the laws of Hong Kong do not provide for restrictions related to shareholding volume or share transfers.

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 "Change 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 and impairment of financial assets. 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 Judgement 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 19.3% from RMB173,385.9 million as of December 31, 2016 to RMB206,869.8 million as of December 31, 2017, and further increased by 9.9% to RMB227,247.8 million as of December 31, 2018. The increase in our total assets was primarily due to an 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 43.2% and 33.8%, respectively, of our total assets as of December 31, 2018. The following table sets forth the components of our total assets as of the dates indicated.

	As of December 31,					
	2016		2017		2018[3]	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Cash and deposits with the central bank	23,318.2	13.4%	23,665.1	11.4%	23,589.7	10.4%
Deposits with banks and other financial institutions	843.9	0.5%	858.4	0.4%	792.3	0.3%
Placements with banks and other financial institutions	–	–	500.0	0.2%	500.1	0.2%
Financial assets held under resale agreements	5,730.4	3.3%	11,305.3	5.5%	24,180.0	10.6%
Net loans and advances to customers[1]	66,484.0	38.4%	94,250.4	45.6%	98,118.1	43.2%
Net financial investments[1]	73,579.1	42.4%	72,188.5	34.9%	76,764.6	33.8%
Interest in associates	200.4	0.1%	218.5	0.1%	251.7	0.1%
Property and equipment	630.1	0.4%	549.3	0.3%	746.6	0.3%
Deferred tax assets	730.3	0.4%	1,071.5	0.5%	1,268.8	0.6%
Other assets[2]	1,869.5	1.1%	2,262.8	1.1%	1,035.9	0.5%
Total assets	**173,385.9**	**100.0%**	**206,869.8**	**100.0%**	**227,247.8**	**100.0%**

Notes:

(1) Such balances of loans and advances to customers and financial investments are net of the relevant allowance for impairment losses. For details, see Note 18 and Note 19 of the Accountants' Report in Appendix I to this prospectus.

(2) Consist primarily of interests receivables, prepayments for acquisition of property and equipment and other receivables.

(3) Pursuant to the relevant regulatory policy 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 on the financial statements for 2018.

Loans and Advances to Customers

Loans and advances to customers are a substantial component of our assets. We provide a broad range of loan products to our customers through our distribution network. 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 18 of the Accountants' Report in Appendix I to this prospectus.

	As of December 31,			
	2016[(1)]		2017[(1)]	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Loans and advances to customers				
Corporate loans	46,928.8	68.4%	68,054.7	70.1%
Personal loans	6,722.1	9.8%	12,861.8	13.2%
Discounted bills	14,926.7	21.8%	16,273.2	16.7%
Gross loans and advances to customers	**68,577.6**	**100.0%**	**97,189.7**	**100.0%**
Less: Allowance for impairment losses	(2,093.6)		(2,939.3)	
Net loans and advances to customers	66,484.0		94,250.4	

Note:

(1) Measured and recognized in accordance with the requirements of IAS 39.

	As of January 1, 2018[1]		As of December 31, 2018[1]	
	Amount	% of total	Amount	% of total
	(unaudited)			
	(in millions of RMB, except percentages)			
Loans and advances to customers measured at amortized cost				
Corporate loans	67,870.5	69.9%	73,928.3	72.7%
Personal loans	12,861.8	13.2%	15,037.7	14.8%
Sub-total	80,732.3	83.1%	88,966.0	87.5%
Loans and advances to customers measured at fair value through other comprehensive income				
Corporate loans	183.9	0.2%	–	–
Discounted bills	16,249.9	16.7%	12,671.8	12.5%
Sub-total	16,433.8	16.9%	12,671.8	12.5%
Gross loans and advances to customers	**97,166.1**	**100.0%**	**101,637.8**	**100.0%**
Interest accrued[2]	–		497.6	
Less: Allowance for impairment losses on loans and advances to customers measured at amortized cost[3]	(3,000.7)		(4,017.3)	
Net loans and advances to customers	94,165.4		98,118.1	

Notes:

(1) Measured and recognized in accordance with the requirements of IFRS 9.

(2) Pursuant to the relevant regulatory policy 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 on the financial statements for 2018.

(3) 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. As of January 1, 2018 and December 31, 2018, the allowance for impairment losses on loans and advances to customers measured at fair value through other comprehensive income recognized in the impairment reserve was RMB50.7 million and RMB21.5 million, respectively. For details, see Note 18 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 41.7% from RMB68,577.6 million as of December 31, 2016 to RMB97,189.7 million as of December 31, 2017, and further increased by 4.6% to RMB101,637.8 million as of December 31, 2018, 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, personal loans and discounted bills. For description of the loan products we offer, please see "Business – Our Business Lines". The following table sets forth our loans and advances to customers by business line as of the dates indicated.

	As of December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Corporate loans	46,928.8	68.4%	68,054.7	70.1%	73,928.3	72.7%
Personal loans	6,722.1	9.8%	12,861.8	13.2%	15,037.7	14.8%
Discounted bills	14,926.7	21.8%	16,273.2	16.7%	12,671.8	12.5%
Total loans to customers	**68,577.6**	**100.0%**	**97,189.7**	**100.0%**	**101,637.8**	**100.0%**

Corporate Loans

During the Track Record Period, corporate loans were the largest component of our loan portfolio, representing 68.4%, 70.1% and 72.7% of our total loans and advances to customers as of December 31, 2016, 2017 and 2018, respectively. Our corporate loans increased by 45.0% from RMB46,928.8 million as of December 31, 2016 to RMB68,054.7 million as of December 31, 2017, and further increased by 8.6% to RMB73,928.3 million as of December 31, 2018. The continued increase in our corporate loans during the Track Record Period was primarily due to our continuous efforts to develop corporate banking business.

Distribution of Corporate Loans by Contract Maturity

The majority of our corporate loans 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 by contract maturity as of the dates indicated.

	As of December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Short-term loans and advances(1)	25,235.5	53.8%	30,998.7	45.5%	25,114.8	34.0%
Medium-and long-term loans(2)	21,693.3	46.2%	37,056.0	54.5%	48,813.5	66.0%
Total corporate loans	**46,928.8**	**100.0%**	**68,054.7**	**100.0%**	**73,928.3**	**100.0%**

Notes:

(1) Short-term loans 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 53.8%, 45.5% and 34.0% of our total corporate loans as of December 31, 2016, 2017 and 2018, respectively.

Medium-and long-term loans accounted for 46.2%, 54.5% and 66.0% of our corporate loans as of December 31, 2016, 2017 and 2018, respectively.

The continued increase in the medium- and long-term loans as a percentage of our corporate loans during the Track Record Period was primarily due to the increased loans to infrastructure projects, most of which were medium-and long-term loans.

Distribution of Corporate Loans by Product Type

The following table sets forth the distribution of our corporate loans by product type as of the dates indicated. For details of each type of our corporate loans, please see "Business – Our Business Lines – Corporate Banking – Corporate Loans".

	As of December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Working capital loans	40,239.0	85.8%	51,957.7	76.3%	50,136.1	67.8%
Fixed asset loans	6,167.4	13.1%	15,483.3	22.8%	22,678.1	30.7%
Others(1)	522.4	1.1%	613.7	0.9%	1,114.1	1.5%
Total corporate loans	**46,928.8**	**100.0%**	**68,054.7**	**100.0%**	**73,928.3**	**100.0%**

Note:

(1) Consist primarily of syndicated loans.

During the Track Record Period, working capital loans accounted for 85.8%, 76.3% and 67.8% of our total corporate loans as of December 31, 2016, 2017 and 2018, respectively. Our working capital loans increased by 29.1% from RMB40,239.0 million as of December 31, 2016 to RMB51,957.7 million as of December 31, 2017, primarily due to the increased market demand for working capital loans. Our working capital loans decreased slightly by 3.5% from RMB51,957.7 million as of December 31, 2017 to RMB50,136.1 million as of December 31, 2018, primarily due to our efforts in promoting other types of corporate loans, especially fixed asset loans, to optimize the structure of our loan portfolio in line with our risk management policy and the national and local industrial policies, so as to achieve stable income while maintaining strict risk control and to better support the industry upgrade and economic transformation of Shanxi Province.

Fixed asset loans accounted for 13.1%, 22.8% and 30.7% of our total corporate loans as of December 31, 2016, 2017 and 2018, respectively. Our fixed asset loans increased by 151.1% from RMB6,167.4 million as of December 31, 2016 to RMB15,483.3 million as of December 31, 2017, and further increased by 46.5% to RMB22,678.1 million as of December 31, 2018. The continued increase in our fixed asset loans was primarily due to increased loans to support infrastructure projects and urban construction of Shanxi Province.

Other corporate loans consist primarily of syndicated loans. Other corporate loans accounted for 1.1%, 0.9% and 1.5% of our total corporate loans as of December 31, 2016, 2017 and 2018, respectively. Our other corporate loans increased by 17.5% from RMB522.4 million as of December 31, 2016 to RMB613.7 million as of December 31, 2017, and further increased by 81.5% to RMB1,114.1 million as of December 31, 2018, primarily due to the increased syndicated loans granted to infrastructure projects.

Distribution of Corporate Loans by Industry

Our corporate loans consist of loans to corporate banking customers in a broad range of industries. The following table sets forth the distribution of our corporate loans by industry classification as of the dates indicated.

	As of December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Manufacturing	19,270.6	41.1%	22,939.8	33.7%	22,243.6	30.1%
Mining	13,049.8	27.8%	15,425.4	22.7%	16,168.2	21.9%
Real estate	1,892.5	4.0%	8,695.8	12.8%	13,529.1	18.3%
Wholesale and retail	5,896.6	12.6%	7,367.7	10.8%	6,925.6	9.4%
Leasing and business services	935.1	2.0%	4,157.1	6.1%	4,321.7	5.8%
Public administration, social security and social organization	1,566.4	3.3%	2,121.6	3.1%	4,082.8	5.5%
Construction	2,042.5	4.4%	3,698.1	5.4%	2,414.4	3.3%
Transportation, warehousing and postal services	588.8	1.3%	1,362.3	2.0%	1,891.9	2.6%
Electricity, gas and water production and supply	726.6	1.5%	1,291.6	1.9%	1,656.1	2.2%
Agriculture, forestry, animal husbandry and fishery	383.4	0.8%	173.7	0.3%	142.2	0.2%
Education	161.3	0.3%	130.4	0.2%	53.3	0.1%
Others[(1)]	415.2	0.9%	691.2	1.0%	499.4	0.6%
Total corporate loans	**46,928.8**	**100.0%**	**68,054.7**	**100.0%**	**73,928.3**	**100.0%**

Note:

(1) Consist primarily of (i) information transmission, software and information technology services, (ii) health, social security and social welfare, (iii) resident services, maintenance and other services, (iv) culture, sports and entertainment, and (v) scientific research and technical services.

The aggregate balance of loans to our corporate borrowers in (i) the manufacturing, (ii) the mining industry, (iii) the real estate industry, (iv) the wholesale and retail industry, and (v) the leasing and business services industry, being the top five industries in terms of our aggregate corporate loan exposure as of December 31, 2018, collectively accounted for 87.5%, 86.1% and 85.5% of our total corporate loans as of December 31, 2016, 2017 and 2018, respectively.

Our loans to corporate borrowers in the manufacturing industry accounted for 41.1%, 33.7%, and 30.1% of our total corporate loans as of December 31, 2016, 2017 and 2018, respectively. Our loans to corporate borrowers in the manufacturing industry increased by 19.0% from RMB19,270.6 million as of December 31, 2016 to RMB22,939.8 million as of December 31, 2017, primarily due to increased financing demand from the corporate borrowers in the manufacturing industry in 2017. Our loans and advances to corporate borrowers in the manufacturing industry decreased slightly by 3.0% from RMB22,939.8 million as of December 31, 2017 to RMB22,243.6 million as of December 31, 2018, primarily due to our controlling and reducing credit extensions to certain manufacturing enterprises to mitigate customer concentration risks in line with our risk management policies.

Our loans to corporate borrowers in the mining industry accounted for 27.8%, 22.7% and 21.9% of our total corporate loans as of December 31, 2016, 2017 and 2018, respectively. The amount of our loans to corporate borrowers in the mining industry increased by 18.2% from RMB13,049.8 million as of December 31, 2016 to RMB15,425.4 million as of December 31, 2017, and further increased by 4.8% to RMB16,168.2 million as of December 31, 2018, primarily because we offered more credit extensions to quality mining enterprises in response to their growing business prospect and financing demand driven by multiple favourable national and local economic policies in China that support industry consolidation and stimulate market demand for their products. As a percentage of our total corporate loans, our loans to the mining industry decreased from 2016 to 2018, primarily due to our efforts in optimizing our corporate loan portfolio and mitigating customer concentration risks by adjusting credit extensions to certain corporate borrowers in the mining industry, which was in line with our risk management policies.

Our loans to corporate borrowers in the real estate industry accounted for 4.0%, 12.8% and 18.3% of our total corporate loans as of December 31, 2016, 2017 and 2018, respectively. Our loans to corporate borrowers in the real estate industry increased significantly from RMB1,892.5 million as of December 31, 2016 to RMB8,695.8 million as of December 31, 2017, and further increased by 55.6% to RMB13,529.1 million as of December 31, 2018, primarily due to the increased demand for corporate loans from the real estate industry driven by the urban construction and development of Shanxi Province, including the renovation of shanty towns.

Our loans to corporate borrowers in the wholesale and retail industry accounted for 12.6%, 10.8% and 9.4% of our total corporate loans as of December 31, 2016, 2017 and 2018, respectively. Our loans to corporate borrowers in the wholesale and retail industry increased by 24.9% from RMB5,896.6 million as of December 31, 2016 to RMB7,367.7 million as of December 31, 2017, primarily due to our increased credit extension to corporate customers in the wholesale and retail industry in response to the growing market demand. Our loans and advances to corporate customers in the wholesale and retail industry decreased both in terms of the absolute amount and as a percentage of our total corporate loans from December 31, 2017 to December 31, 2018, primarily due to our efforts in optimizing our corporate loan portfolio and mitigating customer concentration risks by adjusting credit extensions to certain corporate borrowers in the wholesale and retail industry, which was in line with our risk management policies.

Our loans to corporate borrowers in the leasing and business services industry accounted for 2.0%, 6.1% and 5.8% of our total corporate loans as of December 31, 2016, 2017 and 2018, respectively. Our loans to corporate borrowers in the leasing and business services increased significantly from RMB935.1 million as of December 31, 2016 to RMB4,157.1 million as of December 31, 2017, and further increased by 4.0% to RMB4,321.7 million as of December 31, 2018, primarily attributable to the growing demand for loan products and services in this industry mainly driven by economic transformation and development of Shanxi Province during the Track Record Period.

Distribution of Corporate Loans by Size of Corporate Borrowers

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

	As of December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Micro and small enterprises[(1)]	14,920.2	31.8%	24,475.7	36.0%	21,447.6	29.0%
Medium to large enterprises[(1)]	31,735.2	67.6%	43,485.1	63.9%	52,478.4	71.0%
Others[(2)]	273.4	0.6%	93.9	0.1%	2.3	0.0%
Total corporate loans	**46,928.8**	**100.0%**	**68,054.7**	**100.0%**	**73,928.3**	**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.

Our loans to micro and small enterprises as a percentage of our corporate loan portfolio accounted for 31.8%, 36.0% and 29.0% as of December 31, 2016, 2017 and 2018, respectively. Our loans to micro and small enterprises increased by 64.0% from RMB14,920.2 million as of December 31, 2016 to RMB24,475.7 million as of December 31, 2017, primarily due to our continuing development of loan business with micro and small enterprises to support the local economy. Compared with that as of December 31, 2017, our loans to micro and small enterprises as of December 31, 2018 decreased both in terms of the absolute amount and as a percentage of our total corporate loans, mainly because we adjusted the corporate loan portfolio pursuant to our risk management policies by controlling and reducing loan extension to certain micro and small enterprises with relatively high risks.

Loans to medium to large enterprises as a percentage of our total corporate loans accounted for 67.6%, 63.9% and 71.0%, respectively, as of December 31, 2016, 2017 and 2018. Loans to medium to large enterprises significantly increased from RMB31,735.2 million as of December 31, 2016 to RMB43,485.1 million as of December 31, 2017, and further increased to RMB52,478.4 million as of December 31, 2018. The continued increase in our loans to medium to large enterprises was primarily due to the increase in loans to medium to large enterprises that have shown strong business growth in line with development of local economy and relevant national and local economic policies, particularly those in the mining industry and the real estate industry.

Distribution of Corporate Loans by Exposure Size

The following table sets forth the distribution of our corporate loan exposure to borrowers by size as of the dates indicated.

	As of December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Over RMB500 million	10,827.7	23.1%	20,241.5	29.8%	31,242.9	42.3%
Over RMB100 million to RMB500 million	25,029.5	53.3%	35,959.8	52.8%	31,505.7	42.6%
Over RMB50 million to RMB100 million	3,375.1	7.2%	4,643.2	6.8%	4,465.8	6.0%
Over RMB10 million to RMB50 million	4,117.4	8.8%	4,108.5	6.0%	3,406.2	4.6%
Up to RMB10 million	3,579.1	7.6%	3,101.7	4.6%	3,307.7	4.5%
Total corporate loans	**46,928.8**	**100.0%**	**68,054.7**	**100.0%**	**73,928.3**	**100.0%**

Personal Loans

As of December 31, 2016, 2017 and 2018, our personal loans accounted for 9.8%, 13.2% and 14.8% of our total loans to customers, respectively.

Our personal loans increased by 91.3% from RMB6,722.1 million as of December 31, 2016 to RMB12,861.8 million as of December 31, 2017, and further increased by 16.9% to RMB15,037.7 million as of December 31, 2018. The continued increase in our personal loans were primarily due to our efforts in developing and marketing our personal loan business during the Track Record Period, in particular, the residential mortgage loans and personal business 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,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Residential mortgage loans	1,051.3	15.6%	6,578.2	51.1%	9,403.6	62.5%
Personal consumption loans	4,739.6	70.5%	4,495.5	35.0%	2,921.4	19.4%
Personal business loans	931.2	13.9%	1,366.1	10.6%	1,770.5	11.8%
Credit card balances	–	–	422.0	3.3%	942.2	6.3%
Total personal loans	**6,722.1**	**100.0%**	**12,861.8**	**100.0%**	**15,037.7**	**100.0%**

Residential mortgage loans as a percentage of our total personal loans increased from 15.6% as of December 31, 2016 to 51.1% as of December 31, 2017, and further increased to 62.5% as of December 31, 2018. The continued increase in residential mortgage loans as a percentage of our total personal loans was primarily due to the increased market demand for residential mortgage loans during the Track Record Period, mainly driven by the continuous urbanization in Shanxi Province.

Personal consumption loans as a percentage of our total personal loans decreased from 70.5% as of December 31, 2016 to 35.0% as of December 31, 2017, and further decreased to 19.4% as of December 31, 2018. The continued decrease was primarily due to our efforts to optimize our personal loan portfolio by controlling the extension of personal consumption loans which have relatively higher risks and focusing on developing other relatively low-risk personal loans, especially residential mortgage loans.

Personal business loans increased from RMB931.2 million as of December 31, 2016 to RMB1,366.1 million as of December 31, 2017, and further increased to RMB1,770.5 million as of December 31, 2018, primarily caused by our efforts to develop and innovate personal business loan products to capture strong growth of market demand, which was mainly driven by economic growth in Shanxi Province as a result of favorable national or local policies. Personal business loans as a percentage of our total personal loans decreased from 13.9% as of December 31, 2016 to 10.6% as of December 31, 2017, and further decreased to 11.8% as of December 31, 2018, mainly attributable to our adjustment of loan portfolio structure.

Credit card balances as a percentage of our total personal loans increased from 3.3% as of December 31, 2017 to 6.3% as of December 31, 2018. The increase was primarily due to our efforts to develop our credit card business resulting in the increased number of credit cards being issued and expansion of the relevant business scale.

Distribution of Personal Loans by Size of Loans

The following table sets forth the distribution of our outstanding personal loans by exposure size as of the dates indicated.

	As of December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Over RMB5 million	578.8	8.7%	208.7	1.6%	167.8	1.1%
Over RMB500,000 to RMB5 million	808.5	12.0%	4,990.6	38.8%	6,954.5	46.2%
Over RMB250,000 to RMB500,000	902.9	13.4%	1,933.0	15.0%	2,575.3	17.1%
Over RMB100,000 to RMB250,000	1,910.5	28.4%	2,066.4	16.1%	1,619.9	10.8%
Up to RMB100,000	2,521.4	37.5%	3,663.1	28.5%	3,720.2	24.8%
Total personal loans	**6,722.1**	**100.0%**	**12,861.8**	**100.0%**	**15,037.7**	**100.0%**

Discounted Bills

Discounted bills accounted for 21.8%, 16.7% and 12.5% of our total loans and advances to customers as of December 31, 2016, 2017 and December 31, 2018, respectively. Our discounted bills increased by 9.0% from RMB14,926.7 million as of December 31, 2016 to RMB16,273.2 million as of December 31, 2017, primarily because we increased discounted bill transactions according to market demand and our business strategy. Our discounted bills decreased by 22.1% from RMB16,273.2 million as of December 31, 2017 to RMB12,671.8 million as of December 31, 2018, mainly because we controlled the amount of our discounted bills based on our liquidity management needs, and allocated more resources to invest in bills held under resale agreements with a maturity of less than a month to achieve better liquidity.

The following table sets forth a breakdown of our discounted bills by type of obligation as of the dates indicated:

	As of December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Bank acceptance bill	10,107.8	67.7%	13,857.1	85.2%	11,938.5	94.2%
Commercial acceptance bill	4,818.9	32.3%	2,416.1	14.8%	733.3	5.8%
Total discounted bills	**14,926.7**	**100.0%**	**16,273.2**	**100.0%**	**12,671.8**	**100.0%**

Our discounted bills consisted of bank acceptance bills and commercial acceptance bills. Bank acceptance bills generally present lower credit risk than commercial acceptance bills, whereas commercial acceptance bills bear higher discount rates. The decrease in our commercial acceptance bills during the Track Record Period was mainly due to gradual maturity of certain commercial acceptance bills in 2017 and 2018. During the Track Record Period, majority of our discounted bills were bank acceptance bills, which accounted for 67.7%, 85.2% and 94.2% of our total discounted bills as of December 31, 2016, 2017 and 2018, respectively.

Distribution of Loans by Geographical Region

We also classify loans by the geographic location of our branch offices that originated the loans. Our branches or sub-branches generally originate loans to borrowers in the region where the branches or sub-branches 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,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Taiyuan	43,382.2	63.3%	69,227.9	71.2%	75,257.3	74.1%
Outside Taiyuan	25,195.4	36.7%	27,961.8	28.8%	26,380.5	25.9%
Total loans and advances to customers	**68,577.6**	**100.0%**	**97,189.7**	**100.0%**	**101,637.8**	**100.0%**

Distribution of Loans by Collateral

A substantial amount of our loans and advances to customers are secured by collateral, pledges or guarantees. As of December 31, 2016, 2017 and 2018, our loans and advances to customers secured by collateral, pledges or guarantees amounted to RMB66,687.2 million, RMB92,080.2 million and RMB94,129.7 million, representing 97.2%, 94.7% and 92.6% of our total loans and advances to customers, respectively. The following table sets forth the distribution of our loans and advances to customers by type of collateral as of the dates indicated.

	As of December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Pledged loans[1]						
Pledged with bills	14,952.7	21.8%	16,702.5	17.2%	12,859.2	12.7%
Pledged with certificate of deposits, security deposits or bonds	2,118.5	3.1%	3,061.1	3.1%	2,827.4	2.8%
Pledged with equity interests in listed companies	595.7	0.9%	511.0	0.5%	1,067.7	1.1%
Pledged with account receivables or charging rights	388.2	0.6%	634.5	0.7%	420.0	0.4%
Pledged with others[2]	545.6	0.7%	227.8	0.2%	77.0	0.1%
Subtotal	**18,600.7**	**27.1%**	**21,136.9**	**21.7%**	**17,251.3**	**17.1%**
Collateralized loans[1]						
Collateralized with real estate	6,480.5	9.4%	9,482.9	9.7%	11,553.9	11.4%
Collateralized with equipment	536.4	0.8%	1,414.3	1.5%	1,463.2	1.4%
Collateralized with rights	424.7	0.6%	248.1	0.3%	204.7	0.2%
Collateralized with others[3]	133.2	0.2%	136.7	0.1%	124.8	0.1%
Subtotal	**7,574.8**	**11.0%**	**11,282.0**	**11.6%**	**13,346.6**	**13.1%**
Guaranteed loans[1]						
Guarantee from unlisted companies	35,343.1	51.5%	53,865.8	55.4%	59,391.3	58.3%
Guarantee from listed companies	880.8	1.3%	1,436.8	1.5%	1,243.2	1.2%
Guarantee from individuals	4,287.8	6.3%	4,358.7	4.5%	2,897.3	2.9%
Subtotal	**40,511.7**	**59.1%**	**59,661.3**	**61.4%**	**63,531.8**	**62.4%**
Unsecured loans	**1,890.4**	**2.8%**	**5,109.5**	**5.3%**	**7,508.1**	**7.4%**
Total loans and advances to customers	**68,577.6**	**100.0%**	**97,189.7**	**100.0%**	**101,637.8**	**100.0%**

Notes:

(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.

(2) Comprise land contract and management rights and others.

(3) Comprise land use rights, forest ownership right and others.

During the Track Record Period, a majority of our loans and advances to customers were secured by guarantees, pledges or collaterals, which in aggregate amounted to RMB66,687.2 million, RMB92,080.2 million and RMB94,129.7 million as of December 31, 2016, 2017 and 2018, respectively. The balance of our loans secured by collateral, pledges and guarantees increased continuously during the Track Record Period, which went in line with expansion of our loan business.

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, 2016, 2017 and 2018, the loan-to-value ratio for our loans secured by collaterals was 39.6%, 38.0% and 39.2%, respectively. As of the same dates, the loan-to-value ratio for our loans secured by pledges was 81.4%, 83.6% and 75.5%, respectively.

We have set maximum loan-to-value ratios for loans secured by different types of property and have closely monitored the value of collaterals or pledges to ensure sufficient coverage on the relevant loans. For example, during pre-loan investigation, we engaged qualified third-party appraisers to issue reports on the value of collaterals, and reviewed such valuation reports considering various factors such as market value and conditions of collaterals to ensure that they reflect the actual value of the collaterals. After granting loans, we closely monitored the conditions of relevant collaterals and carry out re-evaluation in time. As a result, we did not experience a situation that the value of collaterals was insufficient to cover the principal of and the interest on the relevant loans during the Track Record Period. For details on our appraisal of collaterals and pledges and our maximum loan-to-value ratios, please see "Risk Management – Credit Risk Management – Credit Risk Management for Corporate Loans – Pre-Loan Investigations – Appraisal of Collateral, Pledges and Guarantees" and "Risk Management – Credit Risk Management – Credit Risk Management for Personal Loans – Pre-Loan Investigations".

Our unsecured loans were RMB1,890.4 million, RMB5,109.5 million and RMB7,508.1 million as of December 31, 2016, 2017 and 2018, respectively, representing 2.8%, 5.3% and 7.4% of our total loans and advances to customers as of the respective dates. The continued increase in our unsecured loans was primarily due to the increase in the number of clients who meet the eligibility for our unsecured loans as a result of our continuous efforts to develop quality clients, 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, 2018				
	Industry	Amount	% of total loans	% of net capital base(1)	Classification
	(in millions of RMB, except percentages)				
Borrower A	Mining	1,843.9	1.8%	9.2%	Normal
Borrower B	Real estate	1,390.0	1.4%	7.0%	Normal
Borrower C	Real estate	1,300.0	1.3%	6.5%	Normal
Borrower D	Mining	1,190.0	1.2%	6.0%	Normal
Borrower E	Leasing and business services	1,140.0	1.1%	5.7%	Normal
Borrower F	Finance	1,093.2	1.1%	5.5%	Normal
Borrower G	Manufacturing	1,091.7	1.1%	5.5%	Normal
Borrower H	Manufacturing	1,000.0	1.0%	5.0%	Normal
Borrower I	Real estate	1,000.0	1.0%	5.0%	Normal
Borrower J	Real estate	1,000.0	1.0%	5.0%	Normal
Total		**12,048.8**	**12.0%**	**60.4%**	

Note:

(1) 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, 2018, see "Financial Information – Capital Resources – Capital Adequacy".

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 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 example, our employees in charge of credit review are required to reject a loan application if the total credit amount exceeds 10% of our net capital. Our risk management departments also conduct regular and *ad hoc* inspections on this matter. As a result, during the Track Record Period, the balance of loans we granted to a single borrower had never exceeded 10% of our net capital base. Should there is any loan exposure to a single borrower exceeding 10% of our net capital base, we would take immediate remedial actions to mitigate concentration risks, for instance, immediately issuing an early repayment notice to the relevant borrower and requesting the borrower to repay the loans within 30 days so as to keep the balance of the loans granted to such borrower within 10% of our net capital. For details on how we manage our credit concentration risks, please also see "Risk Management – Credit Risk Management – Credit Risk Management for Corporate Loans – Portfolio Management – Credit Concentration Management".

In accordance with applicable PRC banking guidelines, our credit exposure to any single group customer is limited to not 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 customers.

	As of December 31, 2018					
	Industry	Loan Balances	% of Total Loans	Credit Exposure[(1)]	% of net capital base[(2)]	Classification
	(in millions of RMB, except percentages)					
Group A	Leasing and business services	1,713.2	1.7%	2,533.2	12.7%	Normal
Group B	Manufacturing	1,388.4	1.4%	2,448.4	12.3%	Normal
Group C	Transportation, warehousing and postal services	980.0	1.0%	2,263.3	11.3%	Normal
Group D	Manufacturing	2,064.0	2.0%	2,229.0	11.2%	Normal
Group E	Manufacturing	1,126.0	1.1%	2,172.0	10.9%	Normal
Group F	Mining	2,094.9	2.1%	2,094.9	10.5%	Normal
Group G	Mining	1,251.0	1.2%	1,922.4	9.6%	Normal
Group H	Real estate	135.0	0.1%	1,893.0	9.5%	Normal
Group I.	Manufacturing	897.5	0.9%	1,859.0	9.3%	Normal
Group J.	Real estate	300.0	0.3%	1,800.0	9.0%	Normal
Total		**11,950.0**	**11.8%**	**21,215.2**	**106.3%**	

Notes:

(1) Calculated pursuant to the applicable CBRC 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, 2018, see "Financial Information – Capital Resources – Capital Adequacy".

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, 2018					
	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						
Working capital loans	1,874.3	8,561.3	20,917.2	18,754.0	29.3	50,136.1
Fixed asset loans	323.4	–	2,218.8	14,068.4	6,067.5	22,678.1
Other loans	34.1	–	–	980.0	100.0	1,114.1
Subtotal	**2,231.8**	**8,561.3**	**23,136.0**	**33,802.4**	**6,196.8**	**73,928.3**
Personal loans						
Residential mortgage loans	13.3	0.0	0.9	58.0	9,331.4	9,403.6
Personal consumption loans	91.3	1,257.5	1,549.5	23.1	–	2,921.4
Personal business loans	198.3	92.7	355.6	1,085.0	38.9	1,770.5
Credit card	17.6	924.6	–	–	–	942.2
Subtotal	**320.5**	**2,274.8**	**1,906.0**	**1,166.1**	**9,370.3**	**15,037.7**
Discounted bills						
Bank acceptance bills	–	3,827.6	8,110.9	–	–	11,938.5
Commercial acceptance bills	–	108.7	624.6	–	–	733.3
Subtotal	**–**	**3,936.3**	**8,735.5**	**–**	**–**	**12,671.8**
Total loans and advances to customers	**2,552.3**	**14,772.4**	**33,777.5**	**34,968.5**	**15,567.1**	**101,637.8**

Note:

(1) Represents the balance of principal of the loans on which principal or interest was overdue as of December 31, 2018.

As of December 31, 2018, our corporate loans due within one year amounted to RMB31,697.3 million, representing 42.9% of our total corporate loans, primarily consisting of working capital loans, which generally have terms of one year or less. As of December 31, 2018, our corporate loans due over one year amounted to RMB39,999.2 million, representing 54.1% of our total corporate loans, consisting primarily of fixed-asset loans, which generally have terms of more than one year.

As of December 31, 2018, our personal loans due over five years amounted to RMB9,370.3 million, representing 62.3% of our total personal loans, consisting primarily of residential mortgage loans, which generally have longer terms than five years.

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 and deposits 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 freely set interest rates. According to regulations issued by regulatory authorities in Shanxi Province, currently the interest rates of our residential mortgage loans for first time home buyers must not be lower than PBoC benchmark loan interest rates, and interest rates of residential mortgage loans for second homes must not be lower than 110% of PBoC benchmark loan interest rates.

Asset Quality of Our Loan Portfolio

We measure and monitor the asset quality of our loans and advances to customers through our credit extension system. Pursuant to the *Guidelines of Risk-based Classification of Loans* (《貸款風險分類指引》) issued by the CBRC on July 3, 2007, the principal criteria for classifying a loan should be based on the assessment of the borrower's repayment ability, willingness to repay, and available collateral. We classify our loans using our credit system, in accordance with the CBRC's guidelines. Please see "Supervision and Regulation – Loan Classification, Allowances and Write-Offs – Loan Classification".

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

The clarification criteria of our corporate loans take into consideration a number of factors to the extent applicable, including but not limited to (i) the borrower's ability to repay the loans; (ii) the borrower's repayment history; (iii) the borrower's repayment intention; (iv) the profitability of the underlying project; (v) the collateral of the loans; (vi) the borrower's legal responsibility; and (vii) our credit management. The key factors behind our loan classification criteria are listed below. This is not intended to be an exhaustive list of all factors taken into account in classifying our loans. Please see "Risk Management – Credit Risk Management – Credit Risk Management for Corporate Loans – Post-disbursement Management" for additional information.

Normal. Loans are classified as normal only if the borrower can honor 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.

- 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 although the borrower is able to service its loans, repayment may be adversely affected by certain factors. 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;

- the borrower uses the loan for other purposes, which may affect 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 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
- 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 is irrecoverable or only partially recoverable as recognized on the extent of guarantees based on the net assets of the corporate borrower;
- 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; and
- other circumstances under which the loans need to be classified as loans in the loss category.

Personal Loans

Personal loans refer to residential mortgage loans, personal consumption loans, and personal business loans. Residential mortgage 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.

In applying the loan classification criteria to personal consumption loans, we recognize loan classification considering the following criteria:

Normal. Personal Loans should be classified as normal if all of the following criteria are met simultaneously:

- neither the principal nor the interest has defaults, or any individual repayment is less than 30 days overdue;
- the borrower and borrowing behavior are authentic and effective, and in compliance with applicable laws and regulations;
- if the loans are secured, its collaterals, pledges or guarantees for the loan are legitimate, effective and sufficient;
- there is no other potential risk which might impact loan principal and interest repayment in full on a timely basis.

Special Mention. Personal Loans in the special mention category generally demonstrate the following characteristics:

- the loan has defaults within three months (inclusive);
- the borrower is listed as a "prohibited" customer in our special mention customer information system;
- the borrower fails to conduct collaterals registration or pledges freezing procedures, or the guarantor's guarantee capacity declines significantly;
- other circumstances under which the loans need to be identified as special mention.

Substandard. Personal Loans in the substandard category generally demonstrate the following characteristics:

- the loan has been overdue for three months to six months (inclusive);
- the borrower has been involved in any bank loan fraud activities with our Bank or other commercial banks;
- the borrower has been related to any criminal or civil case which has an impact on the borrower's repayment intention and capability;
- loan guarantee has been recognized as invalid, and it has become an unsecured loan in reality;
- other circumstances under which the loans need to be classified as loans in the substandard category.

Doubtful. Personal Loans in the doubtful category generally demonstrate the following characteristics:

- the loan has been overdue for more than six months;
- legal proceedings have arisen without final (suspended) adjudication issued by the court, and the loan is irrecoverable after enforcement of various recovery measures;
- the loan is in the substandard category, however, the value of collaterals (pledges) depreciated or the guarantor's guarantee capacity declined significantly, and the borrower is not willing to cooperate to supplement sufficient collaterals;
- other circumstances under which the loans need to be classified as loans in the doubtful category.

Loss. Personal Loans in the loss category generally demonstrate the following characteristics:

- 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;
- 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;

- since the borrower is unable to perform the repayment obligation, the Bank has lawfully acquired collateral assets, however the gap between acquired collateral assets and loan principal and interest is still irrecoverable after the Bank's pursuit of recovery;

- other circumstances under which the loans need to be classified as loans in the loss category.

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	91-120 days
Doubtful	121-180 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,					
	2016		**2017**		**2018**	
	Amount	**% of total**	**Amount**	**% of total**	**Amount**	**% of total**
	(in millions of RMB, except percentages)					
Normal	67,011.2	97.7%	94,990.4	97.8%	97,048.2	95.6%
Special mention	286.0	0.4%	601.5	0.6%	2,690.6	2.6%
Sub-total	**67,297.2**	**98.1%**	**95,591.9**	**98.4%**	**99,738.8**	**98.2%**
Substandard	1,276.2	1.9%	1,593.1	1.6%	1,029.0	1.0%
Doubtful	4.2	0.0%	4.7	0.0%	750.4	0.7%
Loss	–	–	–	–	119.6	0.1%
Sub-total	**1,280.4**	**1.9%**	**1,597.8**	**1.6%**	**1,899.0**	**1.8%**
Total loans and advances to customers	**68,577.6**	**100.0%**	**97,189.7**	**100.0%**	**101,637.8**	**100.0%**
NPL ratio[(1)]		**1.87%**		**1.64%**		**1.87%**

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,					
	2016		2017		2018	
	Amount	% of total[3]	Amount	% of total[3]	Amount	% of total[3]
	(in millions of RMB, except percentages)					
Corporate loans						
Normal	45,510.2	66.3%	66,098.6	68.1%	69,669.2	68.6%
Special mention	280.7	0.4%	563.0	0.6%	2,634.3	2.5%
Substandard	1,137.9	1.7%	1,393.1	1.4%	937.9	0.9%
Doubtful	–	–	–	–	681.0	0.6%
Loss	–	–	–	–	5.9	0.0%
Sub-total	**46,928.8**	**68.4%**	**68,054.7**	**70.1%**	**73,928.3**	**72.6%**
NPL ratio[1]		**2.42%**		**2.05%**		**2.20%**
Personal loans						
Normal	6,574.3	9.6%	12,618.6	13.0%	14,710.8	14.5%
Special mention	5.3	0.0%	38.5	0.0%	56.3	0.1%
Substandard	138.3	0.2%	200.0	0.2%	91.1	0.1%
Doubtful	4.2	0.0%	4.7	0.0%	65.8	0.1%
Loss	–	–	–	–	113.7	0.1%
Sub-total	**6,722.1**	**9.8%**	**12,861.8**	**13.2%**	**15,037.7**	**14.9%**
NPL ratio[1]		**2.12%**		**1.59%**		**1.80%**
Discounted bills						
Normal	14,926.7	21.8%	16,273.2	16.7%	12,668.2	12.5%
Special mention	–	–	–	–	–	–
Substandard	–	–	–	–	–	–
Doubtful	–	–	–	–	3.6	0.0%
Loss	–	–	–	–	–	–
Sub-total	**14,926.7**	**21.8%**	**16,273.2**	**16.7%**	**12,671.8**	**12.5%**
NPL ratio[1]		**–**		**–**		**0.03%**
Total loans and advances to customers	**68,577.6**	**100.0%**	**97,189.7**	**100.0%**	**101,637.8**	**100.0%**
NPL ratio[2]		**1.87%**		**1.64%**		**1.87%**

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 was 1.87%, 1.64% and 1.87% as of December 31, 2016, 2017 and 2018, respectively, which was higher than the national average of city commercial banks as of the same dates, mainly because (i) during the economic transformation of Shanxi Province, some borrowers' operational and financial conditions deteriorated due to the intensified market competition and industry upgrade, which resulted in their default in repayment of loans granted by us; and (ii) we adopted cautious risk control measures in accordance with regulatory development and risk management policies, in particular, we started to categorize loans overdue by over 90 days as NPLs in 2016, which was an early adoption of the new standard issued by CBRC in 2017 that requires banks to classify all loans overdue by over 90 days as NPLs by the end of 2018. For details of the industry average, please see "Industry – China Banking Industry".

Our NPL ratio decreased from 1.87% as of December 31, 2016 to 1.64% as of December 31, 2017, primarily due to (i) our efforts in recovering existing NPLs and strengthening our risk management; and (ii) the improved repayment abilities and financial condition of certain corporate borrowers, especially those in the mining industry as the mining market began to recover in 2016. Our NPL ratio increased from 1.64% as of December 31, 2017 to 1.87% as of December 31, 2018, primarily due to operational difficulties and weakened repayment abilities of some corporate borrowers in the manufacturing industry and the wholesale and retail industry, especially certain owners of small and micro enterprises engaging in the wholesale and retail industry.

Loans Classified as Special Mention

As of December 31, 2016, 2017 and 2018, the balance of our loans classified as special mention was RMB286.0 million, RMB601.5 million and RMB2,690.6 million, respectively, representing 0.4%, 0.6% and 2.6%, respectively, of our total loans and advances to customers. The percentage of loans classified as special mention to total loans and advances to customers increased from 0.4% as of December 31, 2016 to 0.6% as of December 31, 2017, and further increased to 2.6% as of December 31, 2018, primarily because we tightened our risk control implementation measures and prudently downgraded certain loans from normal to special mention where the relevant borrowers are expected to encounter changes in their operating conditions in the future, although they have not previously incurred overdue or default.

The following table sets forth the distribution of our loans classified as special mention to customers by collateral as of the dates indicated.

	As of December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Pledged loans	–	–	–	–	96.5	3.6%
Collateralized loans	26.0	9.1%	49.6	8.2%	816.7	30.4%
Guaranteed loans	260.0	90.9%	551.9	91.8%	1,767.1	65.7%
Unsecured loans	–	–	–	–	10.3	0.3%
Total loans of special mention to customers	**286.0**	**100.0%**	**601.5**	**100.0%**	**2,690.6**	**100.0%**

Changes in Asset Quality of Our Loans

The following table sets forth the changes in our NPLs for the periods indicated.

	As of December 31,		
	2016	2017	2018
	(in millions of RMB)		
Beginning of the year/period	1,216.7	1,280.4	1,597.8
Increases	2,457.4	892.5	1,631.8
Decreases			
Recovery	76.2	128.0	252.8
Upgrade	–	23.1	–
Write-off	15.6	–	9.0
Transfer	2,301.9	424.0	1,068.8
End of the year/period	**1,280.4**	**1,597.8**	**1,899.0**
NPL ratio	**1.87%**	**1.64%**	**1.87%**

The following table sets forth the migration ratios of our loan portfolio calculated in accordance with the applicable CBRC requirements for the years indicated.

	For the year ended December 31,		
	2016	2017	2018
Normal and special mention loans(1)	2.74%	1.68%	2.77%
Normal loans(2)	2.72%	2.94%	8.64%
Special mention loans(3)	92.78%	97.10%	95.56%
Substandard loans(4)	–	–	62.24%
Doubtful loans(5)	–	–	100.00%

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 for our loans classified as special mention increased from 92.78% in 2016 to 95.56% as of December 31, 2018 and the migration ratio for our loans classified as substandard increased from nil in 2016 to 62.24% as of December 31, 2018. In addition, the migration ratio for our loans classified as doubtful increased from nil in 2016 to 100.00% as of December 31, 2018. The increases in these ratios reflected increased downgrade of loans classified as special mention, substandard or doubtful, which were primarily due to (i) weakened repayment abilities of certain corporate customers engaging in the manufacturing and wholesale and retail industries and certain personal business loan customers; and (ii) changes of regulatory policies in 2017 requiring banks to classify loans overdue by 90 days to NPLs by the end of 2018, pursuant to which, we adjusted our loan classification policies and further strengthened risk management work. We have nevertheless increased our allowance for impairment losses on loans in line with our risk management policy during the Track Record Period.

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,								
	2016			2017			2018		
	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									
Working capital loans	1,109.1	86.6%	2.76%	1,357.7	85.0%	2.61%	1,412.3	74.4%	2.82%
Fixed asset loans	4.4	0.4%	0.07%	31.0	1.9%	0.20%	178.4	9.4%	0.79%
Other loans	24.4	1.9%	4.66%	4.4	0.3%	0.71%	34.1	1.8%	3.06%
Subtotal	1,137.9	88.9%	2.42%	1,393.1	87.2%	2.05%	1,624.8	85.6%	2.20%
Personal loans									
Residential mortgage loans	5.2	0.4%	0.49%	6.5	0.4%	0.10%	9.0	0.5%	0.10%
Personal consumption loans	9.3	0.7%	0.20%	33.3	2.1%	0.74%	77.9	4.1%	2.67%
Personal business loans	128.0	10.0%	13.74%	164.9	10.3%	12.07%	175.6	9.2%	9.92%
Credit cards	–	–	–	–	–	–	8.1	0.4%	0.86%
Subtotal	142.5	11.1%	2.12%	204.7	12.8%	1.59%	270.6	14.2%	1.80%
Discounted bills									
Bank acceptance bills	–	–	–	–	–	–	3.6	0.2%	0.03%
Commercial acceptance bills	–	–	–	–	–	–	–	–	–
Subtotal	–	–	–	–	–	–	3.6	0.2%	0.03%
Total NPLs	**1,280.4**	**100.0%**	**1.87%**	**1,597.8**	**100.0%**	**1.64%**	**1,899.0**	**100.0%**	**1.87%**

Note:

(1) Calculated by dividing NPLs in each product type by gross loans to customers in that product type.

Non-performing Corporate Loans

Our non-performing corporate loans increased by 22.4% from RMB1,137.9 million (representing a NPL ratio of 2.42%) as of December 31, 2016 to RMB1,393.1 million (representing a NPL ratio of 2.05%) as of December 31, 2017, and further increased to RMB1,624.8 million (representing a NPL ratio of 2.20%) as of December 31, 2018. The continued increase in our non-performing corporate loans was primarily attributable to the operational difficulties and weakened repayment abilities of certain corporate borrowers engaging in the manufacturing and wholesale and retail industries, which was mainly caused by intensified market competition driven by industry upgrade and consolidation.

Non-performing Personal Loans

Our non-performing personal loans increased from RMB142.5 million (representing an NPL ratio of 2.12%) as of December 31, 2016 to RMB204.7 million (representing an NPL ratio of 1.59%) as of December 31, 2017, and further increased to RMB270.6 million (representing an NPL ratio of 1.80%) as of December 31, 2018. The continued increase in our non-performing personal loans was primarily due to increases in our non-performing personal business loans and personal consumption loans, resulting from the deteriorated financial conditions and weakened repayment abilities of certain individual business owners and individuals who have relatively low risk bearing capabilities during the slowdown of the PRC economy.

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,								
	2016			2017			2018		
	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	236.1	20.8%	1.23%	425.9	30.6%	1.86%	578.9	35.6%	2.60%
Wholesale and retail	215.0	18.9%	3.65%	312.8	22.4%	4.25%	576.0	35.5%	8.32%
Mining	571.2	50.2%	4.38%	571.2	41.0%	3.70%	293.6	18.1%	1.82%
Real estate	23.0	2.0%	1.22%	6.8	0.5%	0.08%	61.1	3.8%	0.45%
Public administration, public security and social organisations	6.4	0.6%	0.41%	9.1	0.7%	0.43%	41.0	2.5%	1.00%
Construction	33.1	2.9%	1.62%	17.2	1.2%	0.47%	33.3	2.0%	1.38%
Leasing and business	1.6	0.1%	0.17%	20.0	1.4%	0.48%	20.7	1.3%	0.48%
Agriculture, forestry, animal husbandry and fishery	44.7	3.9%	11.66%	7.4	0.5%	4.26%	6.9	0.4%	4.85%
Transportation, warehousing and postal services	–	0.0%	0.00%	12.0	0.9%	0.88%	6.3	0.4%	0.33%
Education	–	0.0%	0.00%	5.7	0.4%	4.37%	5.6	0.3%	10.51%
Electricity, gas and water production and supply	–	0.0%	0.00%	–	0.0%	0.00%	1.4	0.1%	0.08%
Others(2)	6.8	0.6%	1.64%	5.0	0.4%	0.72%	–	–	–
Total non-performing corporate loans	**1,137.9**	**100.0%**	**2.42%**	**1,393.1**	**100.0%**	**2.05%**	**1,624.8**	**100.0%**	**2.20%**

Notes:

(1) Calculated by dividing NPLs in each industry by gross loans to corporate customers in that industry.

(2) Comprised of information transmission, software and information technology services and accommodation and catering.

Our non-performing corporate loans consisted primarily of NPLs to corporate borrowers in the manufacturing industry, the wholesale and retail industry and the mining industry.

As of December 31, 2016, 2017 and 2018, non-performing corporate loans to corporate borrowers in the manufacturing industry represented 20.8%, 30.6% and 35.6% of our total non-performing corporate loans, respectively. The NPL ratio for our corporate loans in the manufacturing industry was 1.23%, 1.86% and 2.60% as of December 31, 2016, 2017 and 2018, respectively, primarily reflecting the operational difficulties and weakened repayment abilities of certain manufacturing enterprises operating in the ferrous metal smelting and coke industries, which was mainly caused by intensified market competition driven by industry upgrade and consolidation.

As of December 31, 2016, 2017 and 2018, non-performing corporate loans to corporate borrowers in the wholesale and retail industry represented 18.9%, 22.4% and 35.5% of our total non-performing corporate loans, respectively. The NPL ratio for our corporate loans in the wholesale and retail industry was 3.65%, 4.25% and 8.32% as of December 31, 2016, 2017 and 2018, respectively, primarily due to deteriorated financial conditions and weakened repayment abilities of some borrowers engaging in the wholesale and retail business of steel, wood and clothing during the economic transformation of Shanxi Province, which was mainly caused by intensified market competition driven by industry upgrade and consolidation.

As of December 31, 2016, 2017 and 2018, non-performing corporate loans to corporate borrowers in the mining industry represented 50.2%, 41.0% and 18.1% of our total non-performing corporate loans, respectively. The NPL ratio for our corporate loans in the mining industry was 4.38%, 3.70% and 1.82% as of December 31, 2016, 2017 and 2018, respectively, primarily due to (i) the improved financial conditions and repayment abilities of corporate borrowers in the mining industry driven by the recovery of this industry since 2016; and (ii) our stringent risk management measures.

Distribution of NPLs by Geographical Region

As of December 31, 2016, 2017 and 2018, the balances of NPLs and the NPL ratios of Taiyuan were relatively high, as most of our loans and advances to customers during the Track Record Period originated in Taiyuan. 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,								
	2016			2017			2018		
	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)
	(in millions of RMB, except percentages)								
Taiyuan	1,077.6	84.2%	2.48%	1,387.5	86.8%	2.00%	1,554.9	81.9%	2.07%
Outside Taiyuan	202.8	15.8%	0.80%	210.3	13.2%	0.75%	344.1	18.1%	1.30%
Total NPLs	**1,280.4**	**100.0%**	**1.87%**	**1,597.8**	**100.0%**	**1.64%**	**1,899.0**	**100.0%**	**1.87%**

Note:

(1) Calculated by dividing NPLs in each region by gross loans to customers in that region.

Distribution of NPLs by Collateral

The following table sets forth the distribution of our NPLs by types of collateral as of the dates indicated.

	As of December 31,								
	2016			2017			2018		
	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	10.0	0.8%	0.05%	1.0	0.1%	0.00%	14.6	0.8%	0.08%
Collateralized loans	47.6	3.7%	0.63%	122.3	7.6%	1.08%	220.9	11.6%	1.66%
Guaranteed loans	1,220.0	95.3%	3.01%	1,470.9	92.1%	2.47%	1,650.2	86.9%	2.60%
Unsecured loans	2.8	0.2%	0.15%	3.6	0.2%	0.07%	13.3	0.7%	0.18%
Total NPLs	**1,280.4**	**100.0%**	**1.87%**	**1,597.8**	**100.0%**	**1.64%**	**1,899.0**	**100.0%**	**1.87%**

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 remained relatively stable, which amounted to 0.05%, 0.00% and 0.08% as of December 31, 2016, 2017 and 2018, respectively.

The NPL ratio for our collateralized loans increased from 0.63% as of December 31, 2016 to 1.08% as of December 31, 2017, and further increased to 1.66% as of December 31, 2018. The continued increase in the NPL ratio for our collateralized loans was primarily because certain corporate borrowers engaging in the business relating to ferrous metal smelting and coke industries experienced operational difficulties and deteriorated financial conditions during the Track Record Period, which was mainly caused by intensified market competition driven by industry upgrade and consolidation.

The NPL ratio for our guaranteed loans decreased from 3.01% as of December 31, 2016 to 2.47% as of December 31, 2017, primarily due to our strengthened efforts to recover non-performing guaranteed loans and to enhance credit approval standards for granting guaranteed loans. The NPL ratio for our guaranteed loans increased to 2.60% as of December 31, 2018, mainly because of the deterioration in the financial conditions of certain borrowers engaging in the wholesale and retail industry.

The NPL ratio for our unsecured loans decreased from 0.15% as of December 31, 2016 to 0.07% as of December 31, 2017, primarily due to our enhanced risk control measures and NPL recovery efforts. The NPL ratio for our unsecured loans increased to 0.18% as of December 31, 2018, mainly because the non-performing credit card loans increased along with the development of our credit card business which was started in June 2017.

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, 2018				
	Industry	**Outstanding principal amount**	**Classification**	**% of total NPLs**	**% of net capital base[1]**
	(in millions of RMB, except percentages)				
NPL Borrower A	Mining	274.0	Doubtful	14.4%	1.4%
NPL Borrower B	Manufacturing	233.4	Doubtful	12.3%	1.2%
NPL Borrower C	Wholesale and retail	99.9	Doubtful	5.3%	0.5%
NPL Borrower D	Manufacturing	70.0	Doubtful	3.7%	0.4%
NPL Borrower E	Real estate	48.5	Substandard	2.6%	0.2%
NPL Borrower F	Wholesale and retail	47.9	Substandard	2.5%	0.2%
NPL Borrower G	Manufacturing	31.3	Substandard	1.6%	0.2%
NPL Borrower H	Wholesale and retail	30.0	Substandard	1.6%	0.2%
NPL Borrower I	Wholesale and retail	30.0	Substandard	1.6%	0.2%
NPL Borrower J	Manufacturing	30.0	Substandard	1.6%	0.2%
Total		**895.0**		**47.2%**	**4.7%**

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, 2018, 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,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Current loans	67,118.7	97.9%	95,203.8	98.0%	99,085.5	97.5%
Loans past due for						
– Up to 3 months[1]	520.7	0.7%	632.5	0.6%	740.3	0.7%
– Over 3 months up to 6 months[1]	196.9	0.3%	63.2	0.1%	272.0	0.3%
– Over 6 months up to 1 year[1]	176.3	0.3%	294.4	0.3%	561.7	0.6%
– Over 1 year up to 3 years[1]	539.0	0.8%	668.0	0.7%	827.4	0.8%
– Over 3 years[1]	26.0	0.0%	327.8	0.3%	150.9	0.1%
Sub-total	1,458.9	2.1%	1,985.9	2.0%	2,552.3	2.5%
Total loans and advances to customers	**68,577.6**	**100.0%**	**97,189.7**	**100.0%**	**101,637.8**	**100.0%**

Note:

(1) Represents the principal amount of the loans on which principal or interest overdue as of the dates indicated.

Transfer of Loans

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) disposal of loans. Like the other approaches, transfer of loans and advances to third parties is one of our exit strategy tools for non-performing loans, which is also in compliance with the PRC regulatory policies.

During the Track Record Period, we chose to transfer a variety of loans and advances to third parties after considering numerous factors, such as our business strategy, liquidity risk and credit risk control, as well as the regulatory policies and market environment. We transferred loans and advances with gross amounts of RMB3,232 million, RMB424 million and RMB1,369 million to third parties in 2016, 2017 and 2018, respectively, including (i) NPLs of RMB2,302 million, RMB424 million and RMB1,069 million in 2016, 2017 and 2018, respectively, at the transfer prices of RMB1,034 million, RMB404 million and RMB334 million, respectively, and (ii) loans of RMB930 million and RMB300 million which were not classified as NPLs in 2016 and 2018, respectively, at the transfer prices of RMB930 million and RMB300 million, respectively. All the transfers of loans and advances were made to independent third parties, which mainly included asset management companies and trust companies in the PRC.

During the Track Record Period, a majority of our transfers of loans and advances were carried out through public bidding at property right trading platforms in the PRC, where the transfer price was the highest bidding price. The loans and advances transferred in different batches varied in many respects including their collaterals, loan classifications and types of borrowers. The differences in the mix and features of the loans that we selected to transfer, together with market environment and other factors, resulted in the variance in the discount rates for our transfer of loans during the Track Record Period. Therefore, the variance in the discount rates for the loans and advances that we selected to transfer is not directly related to, nor does it indicate a change, in the collectability of our loans and receivables. In particular, in early 2018, during our post-disbursement management procedures, we noticed that a substantial amount of loans in Yuncheng city deteriorated in terms of loan classification at a rate faster than that in other regions. Upon noticing such movement, and taking into account various other factors, including local economic conditions of Yuncheng city, historical credit risk incidents occurred in Yuncheng city, and the overall strategy of the Bank in terms of business development in different regions within Shanxi Province, we formulated loan disposal plan in line with our risk management policies to mitigate risks associated with such loans and accepted discount in disposal of relevant loans in 2018. We believe that such disposal and discount therein shall not be simply construed as indication of collectability of relevant loans. Please also see the section headed "Risk Factors – Risks Relating to Our Business – The collateral or guarantees securing our loans to customers may not be sufficient or fully realizable". Furthermore, our current loans (i.e. the loans on which both the principal and interest are not overdue) accounted for 97.9%, 98.0% and 97.5% of total loans as of December 31, 2016, 2017 and 2018, which indicates that the collectability of our loans and receivables did not deteriorate, but remained relatively stable during the Track Record Period.

In the future, we may choose to continue disposing of loans and advances as we deem appropriate from time to time in accordance with our liquidity management and risk management policies. Taking into account the relevant laws and regulations in the PRC, we are of the view that such practice is not subject to any risk of discontinuation. Please also see the section headed "Risk Factors – Risks Relating to Our Business – We disposed of certain non-performing assets and should we become unable to dispose of or transfer such assets in the future, our liquidity, financial condition and results of operations may be affected" for details of the risks relating to our disposal of NPLs.

In addition to the above-mentioned transfers of loans and advances, we transferred a portfolio of customer loans that were not classified as NPLs with gross amounts of RMB2,593 million, RMB2,920 million and RMB4,288 million through the asset securitization business, respectively, in 2016, 2017 and 2018. The transfer prices were RMB2,593 million, RMB2,920 million and RMB4,288 million, respectively. For more details, please see "Business – Our Business Lines – Corporate Banking – Investment Banking Services – Asset Backed Securities (ABS)".

During the Track Record Period, the loans and advances and portfolios of customer loans transferred by us had all been derecognized, and such transfer would not be subject to recourse should the customers fail to repay such loans and advances. The difference between the carrying amount of the transferred loans and the consideration received from the transfer had been recognized in our profit or loss. For more details on transfer of loans and the relevant accounting treatments, please see Note 18(g) and Note 2(9) to the Accountants' Report in Appendix I.

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 recognised 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 recognised 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 recognised 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.

An impairment loss is recognized through profits or losses and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized/pledged financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral or pledges. For loans classified as "substandard", "doubtful" and "loss", we generally do not make full provision for impairment allowance, as we measure impairment allowance as the difference between the carrying amounts and the estimated recoverable amounts of the loans. The estimated recoverable amounts are the present value of the estimated future recoverable cash flows of the loans, including the recoverable value of the collateral or pledges. 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, 2016 and 2017 – Impairment Losses on Assets", "Financial Information – Results of Operations for the Years Ended December 31, 2017 and 2018 – 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 allocation 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,		
	2016			2017			2018			2018		
	Amount[2]	% of total	Allowance to gross loan ratio[1]	Amount[2]	% of total	Allowance to gross loan ratio[1]	Amount[3]	% of total	Allowance to gross loan ratio[1]	Amount[3]	% of total	Allowance to gross loan ratio[1]
								(unaudited)				
	(in millions of RMB, except percentages)											
Normal	1,595.3	76.2%	2.38%	2,312.2	78.6%	2.43%	2,221.9	72.8%	2.34%	2,298.1	56.9%	2.37%
Special mention	15.3	0.7%	5.35%	30.9	1.1%	5.14%	117.7	3.9%	19.57%	651.1	16.1%	24.20%
Substandard	480.5	23.0%	37.65%	593.8	20.2%	37.27%	708.0	23.2%	44.44%	445.5	11.0%	43.29%
Doubtful	2.5	0.1%	59.52%	2.4	0.1%	51.06%	3.8	0.1%	80.85%	545.1	13.5%	72.64%
Loss	–	–	–	–	–	–	–	–	–	99.0	2.5%	82.78%
Total allowance	**2,093.6**	**100.0%**	**3.05%**	**2,939.3**	**100.0%**	**3.02%**	**3,051.4**	**100.0%**	**3.14%**	**4,038.8**	**100.0%**	**3.97%**

Notes:

(1) Calculated by dividing impairment allowance on loans in each category by gross loans in that category.

(2) Measured and recognized in accordance with the requirements of IAS 39.

(3) Measured and recognized in accordance with the requirements of IFRS 9.

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,		
	2016			2017			2018			2018		
	Amount[(2)]	% of total	Allowance to gross loan ratio[(1)]	Amount[(2)]	% of total	Allowance to gross loan ratio[(1)]	Amount[(3)]	% of total	Allowance to gross loan ratio[(1)]	Amount[(3)]	% of total	Allowance to gross loan ratio[(1)]
								(unaudited)				
	(in millions of RMB, except percentages)											
Corporate loans												
Normal	1,262.0	60.3%	2.77%	1,732.5	58.9%	2.62%	2,045.4	67.0%	3.09%	2,187.0	54.2%	3.14%
Special mention	15.1	0.7%	5.38%	29.4	1.0%	5.22%	99.7	3.3%	17.71%	628.7	15.5%	23.87%
Substandard	439.2	21.0%	38.60%	537.1	18.3%	38.55%	544.2	17.8%	39.06%	370.6	9.1%	39.51%
Doubtful	–	–	–	–	–	–	–	–	–	482.8	12.0%	70.90%
Loss	–	–	–	–	–	–	–	–	–	5.9	0.2%	100.00%
Subtotal	1,716.3	82.0%	3.66%	2,299.0	78.2%	3.38%	2,689.3	88.1%	3.95%	3,675.0	91.0%	4.97%
Personal loans												
Normal	182.3	8.7%	2.77%	328.9	11.1%	2.61%	129.6	4.2%	1.03%	98.0	2.4%	0.67%
Special mention	0.2	0.0%	3.77%	1.5	0.1%	3.90%	18.0	0.6%	46.75%	22.4	0.6%	39.79%
Substandard	41.3	2.0%	29.86%	56.7	1.9%	28.35%	163.8	5.4%	81.90%	74.9	1.9%	82.22%
Doubtful	2.5	0.1%	59.52%	2.4	0.1%	51.06%	3.8	0.2%	80.85%	53.9	1.3%	81.91%
Loss	–	–	–	–	–	–	–	–	–	93.1	2.3%	81.88%
Subtotal	226.3	10.8%	3.37%	389.5	13.2%	3.03%	315.2	10.4%	2.45%	342.3	8.5%	2.28%
Discounted bills												
Normal	151.0	7.2%	1.01%	250.8	8.6%	1.54%	46.9	1.5%	0.29%	13.1	0.3%	0.10%
Special mention	–	–	–	–	–	–	–	–	–	–	–	–
Substandard	–	–	–	–	–	–	–	–	–	–	–	–
Doubtful	–	–	–	–	–	–	–	–	–	8.4	0.2%	233.33%
Loss	–	–	–	–	–	–	–	–	–	–	–	–
Subtotal	151.0	7.2%	1.01%	250.8	8.6%	1.54%	46.9	1.5%	0.29%	21.5	0.5%	0.17%
Total allowance	**2,093.6**	**100.0%**	**3.05%**	**2,939.3**	**100.0%**	**3.02%**	**3,051.4**	**100.0%**	**3.14%**	**4,038.8**	**100.0%**	**3.97%**

Notes:

(1) Calculated by dividing allowance for impairment losses on loans in each category by gross loans in that category.

(2) Measured and recognized in accordance with the requirements of IAS 39.

(3) Measured and recognized in accordance with the requirements of IFRS 9.

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, 2016 and 2017 – 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, 2016[(1)]	**2,575.4**
Charge for the year	1,378.5
Released for the year	(495.4)
Reversal of discounted	(49.3)
Transfer out	(1,300.9)
Recoveries	0.9
Write-off	(15.6)
As of December 31, 2016[(1)]	**2,093.6**
Charge for the year	977.5
Released for the year	(69.5)
Reversal of discounted	(41.4)
Transfer out	(22.6)
Recoveries	1.7
Write-off	–
As of December 31, 2017[(1)]	**2,939.3**
As of January 1, 2018[(2)]	**3,051.4**
Charge for the year	1,814.1
Released for the year	(29.2)
Reversal of discounted	(50.4)
Transfer out	(738.2)
Recoveries	0.1
Write-off	(9.0)
As of December 31, 2018[(3)]	**4,038.8**

Notes:

(1) prepared according to IAS 39.

(2) prepared according to IFRS 9, comprised of (i) allowance for impairment losses on the loans and advances to customers measured at amortized cost which amounted to RMB3,000.7 million; and (ii) allowance for impairment losses on the loans and advances measured at fair value through other comprehensive income which amounted to RMB50.7 million.

(3) prepared according to IFRS 9, comprised of (i) allowance for impairment losses on the loans and advances to customers measured at amortized cost which amounted to RMB4,017.3 million; and (ii) allowance for impairment losses on the loans and advances measured at fair value through other comprehensive income which amounted to RMB21.5 million.

Our allowance for impairment losses on loans to customers increased by 40.4% from RMB2,093.6 million as of December 31, 2016 to RMB2,939.3 million as of December 31, 2017. Our allowance for impairment losses on loans to customers as of January 1, 2018 amounted to RMB3,051.4 million in accordance with the expected credit loss model under IFRS 9, as such expected credit loss model, compared to the incurred loss model under IAS 39, uses more forward-looking information rather than considering the existence of objective evidence of impairment as a prerequisite for recognition of credit losses. Our allowance for impairment losses on loans to customers as of December 31, 2018 amounted to RMB4,038.8 million, the increase in which was generally in line with the growth of our loans to customers, setting aside the difference caused by the adoption of the new accounting policies.

Distribution of Allowance for Impairment Losses by Product Type

The following table sets forth the distribution of our allowance for impairment losses on loans to customers by product type as of the dates indicated.

	As of December 31,						As of January 1,			As of December 31,		
	2016			2017			2018			2018		
	Amount[2]	% of total	Allowance to gross loan ratio[1]	Amount[2]	% of total	Allowance to gross loan ratio[1]	Amount[3]	% of total	Allowance to gross loan ratio[1]	Amount[3]	% of total	Allowance to gross loan ratio (%)[1]
								(unaudited)				
	(in millions of RMB, except percentages)											
Corporate loans												
Working capital loans	1,522.7	72.8%	3.78%	1,864.7	63.4%	3.59%	2,074.1	67.9%	3.99%	2,575.0	63.8%	5.14%
Fixed asset loans	172.3	8.2%	2.79%	416.9	14.2%	2.69%	594.9	19.5%	3.84%	1,048.6	26.0%	4.62%
Others	21.3	1.0%	4.08%	17.4	0.6%	2.84%	20.3	0.7%	3.31%	51.4	1.2%	4.61%
Subtotal	1,716.3	82.0%	3.66%	2,299.0	78.2%	3.38%	2,689.3	88.1%	3.95%	3,675.0	91.0%	4.97%
Personal loans												
Residential mortgage Loans	30.6	1.5%	2.91%	174.7	5.9%	2.66%	69.8	2.3%	1.06%	61.2	1.5%	0.65%
Personal consumption loans	134.0	6.4%	2.83%	127.3	4.3%	2.83%	75.8	2.5%	1.69%	82.4	2.0%	2.82%
Personal business loans	61.7	2.9%	6.63%	76.5	2.6%	5.60%	164.3	5.4%	12.03%	173.9	4.3%	9.82%
Credit cards	–	–	–	11.0	0.4%	2.61%	5.3	0.2%	1.26%	24.8	0.7%	2.63%
Subtotal	226.3	10.8%	3.37%	389.5	13.2%	3.03%	315.2	10.4%	2.45%	342.3	8.5%	2.28%
Discounted bills												
Bank acceptance bills	102.3	4.9%	1.01%	213.6	7.3%	1.54%	5.2	0.2%	0.04%	9.1	0.2%	0.08%
Commercial acceptance bills	48.7	2.3%	1.01%	37.2	1.3%	1.54%	41.7	1.3%	1.73%	12.4	0.3%	1.69%
Subtotal	151.0	7.2%	1.01%	250.8	8.6%	1.54%	46.9	1.5%	0.29%	21.5	0.5%	0.17%
Total allowance for loans	**2,093.6**	**100.0%**	**3.05%**	**2,939.3**	**100.0%**	**3.02%**	**3,051.4**	**100.0%**	**3.14%**	**4,038.8**	**100.00%**	**3.97%**

Notes:

(1) Calculated by dividing allowance for impairment losses on loans in each category by gross loans in that category.

(2) Measured and recognized in accordance with the requirements of IAS 39.

(3) Measured and recognized in accordance with the requirements of IFRS 9.

Distribution of Allowance for Impairment Losses by Geographic Region

The following table sets forth the allocation of our allowance for impairment losses on loans to customers by geographical region as of the dates indicated.

	As of December 31,						As of January 1,			As of December 31,		
	2016			2017			2018			2018		
	Amount[(2)]	% of total	Allowance to gross loan ratio[(1)]	Amount[(2)]	% of total	Allowance to gross loan ratio[(1)]	Amount[(3)]	% of total	Allowance to gross loan ratio[(1)]	Amount[(3)]	% of total	Allowance to gross loan ratio[(1)]
								(unaudited)				
	(in millions of RMB, except percentages)											
Taiyuan	1,490.8	71.2%	3.44%	2,157.1	73.4%	3.12%	2,152.6	70.5%	3.11%	3,112.1	77.1%	4.14%
Outside Taiyuan	602.8	28.8%	2.39%	782.2	26.6%	2.80%	898.8	29.5%	3.21%	926.7	22.9%	3.51%
Total allowance for loans	**2,093.6**	**100.0%**	**3.05%**	**2,939.3**	**100.0%**	**3.02%**	**3,051.4**	**100.0%**	**3.14%**	**4,038.8**	**100.0%**	**3.97%**

Notes:

(1) Calculated by dividing allowance for impairment losses on loans in each region by gross loans in that region.

(2) Measured and recognized in accordance with the requirements of IAS 39.

(3) Measured and recognized in accordance with the requirements of IFRS 9.

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 to customers. The following table sets forth the distribution of the allowance for impairment losses on loans to customers by our assessment methodology as of the dates indicated.

	As of December 31,				As of January 1,		As of December 31,	
	2016		2017		2018		2018	
	Amount(2)	Allowance to gross loan ratio(1)	Amount(2)	Allowance to gross loan ratio(1)	Amount(3)	Allowance to gross loan ratio(1)	Amount(3)	Allowance to gross loan ratio(1)
					(unaudited)			
	(in millions of RMB, except percentages)							
Expected credit losses	N/A	N/A	N/A	N/A	3,051.4	3.14%	4,038.8	3.97%
Collectively assessed	1,654.6	2.45%	2,402.2	2.51%	N/A	N/A	N/A	N/A
Individually assessed	439.0	38.58%	537.1	38.55%	N/A	N/A	N/A	N/A
Total allowance for loans	**2,093.6**	**3.05%**	**2,939.3**	**3.02%**	**3,051.4**	**3.14%**	**4,038.8**	**3.97%**

Notes:

(1) Calculated by dividing the allowance for impairment losses on loans in each category by gross loans in that category.

(2) Measured and recognized in accordance with the requirements of IAS 39.

(3) Measured and recognized in accordance with the requirements of IFRS 9.

Distribution of Allowance for Impairment Losses on Corporate Loans by Industry

The following table sets forth the allowance for impairment losses on corporate loans by industry as of the dates indicated.

	As of December 31,						As of January 1,			As of December 31,		
	2016			2017			2018			2018		
	Amount[3]	% of total	Allowance to gross loan ratio[1]	Amount[3]	% of total	Allowance to gross loan ratio[1]	Amount[4]	% of total	Allowance to gross loan ratio[1]	Amount[4]	% of total	Allowance to gross loan ratio[1]
								(unaudited)				
	(in millions of RMB, except percentages)											
Manufacturing	612.6	35.7%	3.18%	748.6	32.6%	3.26%	866.3	32.2%	3.78%	1,352.2	36.8%	6.08%
Mining	597.1	34.8%	4.58%	644.0	28.0%	4.17%	653.1	24.3%	4.23%	695.2	18.9%	4.30%
Real estate	59.3	3.4%	3.13%	230.8	10.0%	2.65%	327.9	12.2%	3.77%	536.8	14.6%	3.97%
Wholesale and retail	230.7	13.4%	3.91%	292.7	12.7%	3.97%	363.8	13.5%	4.94%	465.9	12.7%	6.73%
Public administration, social security and social organization	45.5	2.6%	2.90%	59.1	2.6%	2.79%	86.7	3.2%	4.09%	199.9	5.4%	4.90%
Leasing and business services	26.4	1.5%	2.82%	115.4	5.0%	2.78%	158.0	5.9%	3.80%	157.7	4.3%	3.65%
Construction	66.4	3.9%	3.25%	104.1	4.5%	2.81%	119.4	4.4%	3.23%	87.9	2.4%	3.64%
Electricity, gas and water production and supply	20.1	1.2%	2.77%	33.9	1.5%	2.62%	45.1	1.7%	3.49%	82.9	2.3%	5.01%
Transportation, warehousing and postal services	16.5	1.0%	2.80%	39.6	1.7%	2.91%	23.1	0.9%	1.70%	64.3	1.7%	3.40%
Agriculture, forestry, animal husbandry and fishery	23.7	1.4%	6.18%	5.0	0.2%	2.88%	10.6	0.4%	6.10%	10.0	0.3%	7.03%
Education	4.5	0.3%	2.79%	6.1	0.3%	4.68%	7.4	0.3%	5.67%	3.8	0.1%	7.13%
Others[2]	13.5	0.8%	3.25%	19.7	0.9%	2.85%	27.9	1.0%	4.04%	18.4	0.5%	3.68%
Total allowance for corporate loans	**1,716.3**	**100.0%**	**3.66%**	**2,299.0**	**100.0%**	**3.38%**	**2,689.3**	**100.0%**	**3.95%**	**3,675.0**	**100.0%**	**4.97%**

Notes:

(1) Calculated by dividing allowance for impairment losses on corporate loans in each industry by gross corporate loans in that industry.

(2) Consists primarily of health and social services, culture, sports and entertainment, scientific research and technical services, information transmission, software and information technology services, and resident services, maintenance and other services.

(3) Measured and recognized in accordance with the requirements of IAS 39.

(4) Measured and recognized in accordance with the requirements of IFRS 9.

Financial Investments

Financial investments are another important component of our assets, which amounted to RMB73,579.1 million, RMB72,188.5 million and RMB76,764.6 million as of December 31, 2016 and 2017 and December 31, 2018, representing 42.4%, 34.9% and 33.8% of our total assets as of the same dates, respectively. The continued decrease in financial investments as a percentage of our total assets during the Track Record Period was primarily because pursuant to policies regulating SPV investment issued by CBIRC in recent years, we adjusted our financial investment portfolio and reduced the scale of certain SPV investment. The increase in the balance of our financial investments from December 31, 2017 to December 31, 2018 was mainly due to our increased investments in debt securities and funds which was in line with our risk management policies and our investment strategies.

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, certificates of interbank deposit 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 certificates of interbank deposit that are non-derivative financial assets designated on initial recognition as available for sale or any other instruments that are not classified as (a) loans and 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 debt securities 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 amortized cost. A financial investment is measured at amortized cost if it meets both of the following conditions and is not designated as at 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 amortized 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 at 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 at 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 amortized cost or financial investments measured at fair value through other comprehensive income as described above are measured at 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 and asset management plans.

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 19 of the Accountants' Report in Appendix I to this prospectus.

	As of December 31,				As of January 1,		As of December 31,	
	2016		2017		2018(1)		2018	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
					(unaudited)			
	(in millions of RMB, except percentage)							
Financial investments measured at amortized cost(2)	N/A	N/A	N/A	N/A	49,276.6	67.4%	47,784.7	62.0%
Financial investments measured fair value through other comprehensive income(2)	N/A	N/A	N/A	N/A	4,933.8	6.7%	4,981.2	6.5%
Financial investments measured at fair value through profit or loss(3)	3,490.7	4.7%	5,231.6	7.2%	18,889.0	25.9%	24,251.9	31.5%
Available-for-sale financial assets(4)	3,584.0	4.8%	5,803.8	7.9%	N/A	N/A	N/A	N/A
Held-to-maturity investments(4)	11,719.6	15.8%	12,962.1	17.7%	N/A	N/A	N/A	N/A
Investments classified as receivables(4)	55,370.9	74.7%	49,225.1	67.2%	N/A	N/A	N/A	N/A
Gross financial investments	**74,165.2**	**100.0%**	**73,222.6**	**100.0%**	**73,099.4**	**100.0%**	**77,017.8**	**100.0%**
Interest accrued(5)	–		–		–		704.3	
Less: allowance for impairment losses(6)	(586.1)		(1,034.1)		(1,232.6)		(957.5)	
Net financial investments	**73,579.1**		**72,188.5**		**71,866.8**		**76,764.6**	

Notes:

(1) We adopted IFRS 9 starting from January 1, 2018. According to this accounting policy, our available-for-sale financial assets were reclassified to financial investments measured at fair value through profit or loss, financial investments measured at fair value through other comprehensive income and financial investments measured at amortized cost. Our held-to-maturity investments were reclassified to financial investments measured at amortized cost. Meanwhile, investments classified as receivables were reclassified to financial investments measured at amortized cost, financial investments measured at fair value through profit or loss and financial investments measured at fair value through other comprehensive income.

(2) Prepared in accordance with IFRS 9, starting from January 1, 2018.

(3) The balance of financial investments measured at fair value through profit or losses prior to January 1, 2018 was classified in accordance with IAS 39 and the balance of financial investments measured at fair value through profit or losses on or after January 1, 2018 was classified in accordance with IFRS 9.

(4) Prepared in accordance with IAS 39 that we adopted prior to January 1, 2018.

(5) Pursuant to the relevant regulatory policy 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 for 2018.

(6) For the amount on or after January 1, 2018, only includes allowance for impairment losses on financial investments measured at amortized cost. 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. As of January 1, 2018 and December 31, 2018, the allowance for impairment losses on financial investments measured at fair value through other comprehensive income recognized in the impairment reserve was RMB0.7 million and RMB1.4 million, respectively.

Our financial investments measured at amortized cost primarily comprise debt securities and investment in trust plans and asset management plans. After the adoption of IFRS 9 on January 1, 2018, our financial investments measured at amortized costs decreased from RMB49,276.6 million as of January 1, 2018 to RMB47,784.7 million as of December 31, 2018, primarily due to our decreased investment in trust plans and asset management plans caused by the impact from stricter regulatory policies regulating such SPV investment.

Our financial investments measured at fair value through other comprehensive income primarily comprise debt securities and certificates of interbank deposit. Our financial investments measured at fair value through other comprehensive income increased from RMB4,933.8 million as of January 1, 2018 to RMB4,981.2 million as of December 31, 2018, primarily due to our increased debt securities investment in 2018 made based on market conditions and our needs for liquidity management.

Our financial investments measured at fair value through profit or loss primarily comprise debt securities and investment in trust plans, asset management plans, funds and wealth management products issued by other banks. Our financial investments measured at fair value through profit or loss increased from RMB3,490.7 million as of December 31, 2016 to RMB5,231.6 million as of December 31, 2017. According to IFRS 9 which we have adopted since January 1, 2018, our financial investments measured at fair value through profit or loss amounted to RMB18,889.0 million as of January 1, 2018, which is mainly because certain SPV investment which were originally classified as available-for-sale financial assets, investments classified as receivables under IAS 39 have been reclassified to this category under IFRS 9. As of December 31, 2018, our financial investments measured at fair value through profit or loss further increased to RMB24,251.9 million. During the track record period, apart from the impact of the change of accounting standards, the increase in our financial investments measured at fair value through profit or loss was mainly because we increased our investment in funds according to our liquidity management and investment strategies.

Our available-for-sale financial assets primarily consist of debt securities, certificates of interbank deposit and investment in funds. Our available-for-sale financial assets increased from RMB3,584.0 million as of December 31, 2016 to RMB5,803.8 million as of December 31, 2017, primarily because we increased investment in debt securities and funds after taking into account various factors such as the liquidity and yields of assets. 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, (ii) our available-for-sale financial assets that we have the intention to hold to maturity and are held for collection of contractual cash flows representing solely payments of principal and interest have been reclassified to financial investments measured at amortized cost, and (iii) 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 Judgment and Key Sources of Estimation Uncertainty – Impact of New Accounting Policies".

Our held-to-maturity investments consist primarily of debt securities issued by PRC Government and policy banks. Our held-to-maturity investments increased from RMB11,719.6 million as of December 31, 2016 to RMB12,962.1 million as of December 31, 2017, primarily due to our increased investment in the debt securities issued by PRC Government in accordance with market conditions and our investment strategy. Our held-to-maturity investments have been reclassified to financial investments measured at amortized cost due to adoption of IFRS 9 on January 1, 2018. For details of the impact of IFRS 9, please see "Financial Information – Critical Accounting Judgment and Key Sources of Estimation Uncertainty – Impact of New Accounting Policies".

Our investments classified as receivables are consist primarily of investment in trust plans and asset management plans. Our investments classified as receivables decreased from RMB55,370.9 million as of December 31, 2016 to RMB49,225.1 million as of December 31, 2017, primarily due to our decreased investment in trust plans and asset management plans according to relevant regulatory policies regulating SPV investment which were issued by PRC Government in recent years. Our investments classified as receivables have been reclassified to financial investments measured at amortized 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 Judgement 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, 2018					
	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**	**Overdue**	**Total**
	(in millions of RMB)					
Financial investments measured at fair value through profit or loss	19,716.2	1,903.1	1,177.9	1,454.7	–	24,251.9
Financial investments measured at fair value through other comprehensive income	649.0	1,976.0	2,075.6	280.6	–	4,981.2
Financial investments measured at amortized cost	1,015.7	15,232.5	22,831.0	7,237.2	1,468.3	47,784.7
Total	**21,380.9**	**19,111.6**	**26,084.5**	**8,972.5**	**1,468.3**	**77,017.8**

Distribution of Financial Investments by Product Type

Our financial investments consist primarily of debt securities investment and SPV investment. Our SPV investment refers to investment through investment vehicles such as 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,	
	2016		2017		2018		2018	
	Amount(2)	% of total	Amount(1)	% of total	Amount(3)	% of total	Amount(3)	% of total
					(unaudited)			
	(in millions of RMB, except percentages)							
Debt securities investment	14,086.7	19.0%	16,703.1	22.8%	16,746.7	22.9%	23,030.3	29.8%
SPV investment								
Trust plans	27,328.6	36.8%	13,596.5	18.6%	13,598.9	18.7%	11,452.0	14.9%
Asset management plans	29,010.5	39.1%	34,909.4	47.7%	34,742.3	47.5%	22,837.8	29.7%
Wealth management products	150.0	0.2%	1,550.0	2.1%	1,547.9	2.1%	50.2	0.1%
Funds	3,531.3	4.8%	4,100.4	5.6%	4,100.4	5.6%	16,885.5	21.9%
Subtotal	60,020.4	80.9%	54,156.3	74.0%	53,989.5	73.9%	51,225.5	66.6%
Others(1)	58.1	0.1%	2,363.2	3.2%	2,363.2	3.2%	2,762.0	3.6%
Total financial investments	**74,165.2**	**100.0%**	**73,222.6**	**100.0%**	**73,099.4**	**100.0%**	**77,017.8**	**100.0%**

Notes:

(1) Consist primarily of certificates of interbank deposit.

(2) Prepared in accordance with IAS 39.

(3) Prepared in accordance with IFRS 9.

Debt Securities Investment

Debt securities investment accounted for 19.0%, 22.8% and 29.8% of our total financial investments as of December 31, 2016, 2017 and 2018, 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. All of the debt securities we held as of December 31, 2016, 2017 and 2018 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,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Debt securities issued by PRC Government	7,060.6	50.1%	10,909.9	65.3%	17,191.8	74.7%
Debt securities issued by policy banks	4,679.5	33.2%	4,356.8	26.1%	4,090.4	17.8%
Debt securities issued by commercial banks and other financial institutions	138.5	1.0%	95.5	0.6%	494.2	2.1%
Debt securities issued by corporate issuers	2,208.1	15.7%	1,340.9	8.0%	1,253.9	5.4%
Total debt securities	**14,086.7**	**100.0%**	**16,703.1**	**100.0%**	**23,030.3**	**100.0%**

Debt securities investment increased by 18.6% from RMB14,086.7 million as of December 31, 2016 to RMB16,703.1 million as of December 31, 2017, and further increased to RMB23,030.3 million as of December 31, 2018, primarily reflecting our increased investment in debt securities issued by PRC Government.

During the Track Record Period, debt securities issued by PRC Government were the largest component of our debt securities portfolio, accounting for 50.1%, 65.3% and 74.7% of our total debt securities portfolio as of December 31, 2016, 2017 and 2018, respectively. The debt securities issued by PRC Government increased by 54.5% from RMB7,060.6 million as of December 31, 2016 to RMB10,909.9 million as of December 31, 2017, and further increased by 57.6% to RMB17,191.8 million as of December 31, 2018, primarily because we increased our investment in debt securities issued by PRC Government which generally have good liquidity and low risks in line with our liquidity risk management policies.

Debt securities issued by policy banks decreased by 6.9% from RMB4,679.5 million as of December 31, 2016 to RMB4,356.8 million as of December 31, 2017, and further decreased by 6.1% to RMB4,090.4 million as of December 31, 2018. The continued decrease in the debt securities issued by policy banks was primarily because we adjusted investment portfolio and allocated more resources to the investment in debt securities issued by PRC Government in accordance with our investment strategies and risk management policies.

Debt securities issued by commercial banks and other financial institutions amounted to RMB138.5 million, RMB95.5 million and RMB494.2 million as of December 31, 2016, 2017 and 2018 respectively. 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 decreased by 39.3% from RMB2,208.1 million as of December 31, 2016 to RMB1,340.9 million as of December 31, 2017, primarily because the amount of such debt securities that matured in 2017 was more than the amount of such investment we made in same year based on market conditions, investment strategies and risk management policies. Debt securities issued by corporate issuers further decreased to RMB1,253.9 million as of December 31, 2018, primarily because we further reduced such investment to limit our credit risk exposure under the circumstances that credit risk of corporate bonds in the market increased in 2018.

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,	
	2016		2017		2018		2018	
	Amount[1]	% of total	Amount[1]	% of total	Amount[2]	% of total	Amount[2]	% of total
					(unaudited)			
	(in millions of RMB, except percentages)							
Financial investments measured at amortized cost	N/A	N/A	N/A	N/A	14,632.1	87.3%	20,276.9	88.1%
Financial investments measured at fair value through other comprehensive income	N/A	N/A	N/A	N/A	1,047.1	6.3%	2,335.1	10.1%
Financial investments measured at fair value through profit or loss	637.6	4.5%	1,770.7	10.6%	1,067.5	6.4%	418.3	1.8%
Available-for-sale financial assets	1,677.8	11.9%	1,902.8	11.4%	N/A	N/A	N/A	N/A
Held-to-maturity investments	11,719.6	83.2%	12,962.1	77.6%	N/A	N/A	N/A	N/A
Investments classified as receivables	51.7	0.4%	67.5	0.4%	N/A	N/A	N/A	N/A
Total debt securities	**14,086.7**	**100.0%**	**16,703.1**	**100.0%**	**16,746.7**	**100.0%**	**23,030.3**	**100.0%**

Notes:

(1) Prepared in accordance with IAS 39.

(2) Prepared in accordance with IFRS 9.

The following table sets forth the balance of our debt securities portfolio by remaining maturity as of the date indicated.

	As of December 31, 2018				
	Due within 3 months	Due between 3 to 12 months	Due over 1 year up to 5 years	Due in more than 5 years	Total
	(in millions of RMB)				
Debt securities issued by PRC Government	203.6	2,726.1	9,726.2	4,535.9	17,191.8
Debt securities issued by policy banks	–	70.0	2,158.6	1,861.8	4,090.4
Debt securities issued by commercial banks and other financial institutions	–	174.5	237.1	82.6	494.2
Debt securities issued by corporate issuers	158.3	302.9	137.3	655.4	1,253.9
Total debt securities	**361.9**	**3,273.5**	**12,259.2**	**7,135.7**	**23,030.3**

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,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Fixed interest rates	13,486.1	95.7%	16,248.9	97.3%	22,717.4	98.6%
Floating interest rates	600.6	4.3%	454.2	2.7%	312.9	1.4%
Total debt securities	**14,086.7**	**100.0%**	**16,703.1**	**100.0%**	**23,030.3**	**100.0%**

SPV Investment

Our SPV investment is made through trust plans, asset management plans, wealth management products or funds, where we entrust our counterparties to manage our funds and they then provide financing to financing parties/ultimate borrowers or invest our funds in specific investment portfolios such as debt securities and money market products. For details, please see "Business – Financial Markets – Investment Management – SPV Investment".

Trust Plans

	As of December 31,				As of January 1,		As of December 31,	
	2016		2017		2018		2018	
	Amount[(1)]	% of total	Amount[(1)]	% of total	Amount[(2)]	% of total	Amount[(2)]	% of total
					(unaudited)			
	(in millions of RMB, except percentages)							
Trust plans								
Financial investments measured at amortized cost	N/A	N/A	N/A	N/A	9,082.7	66.8%	7,295.0	63.7%
Financial investments measured at fair value through profit or loss	–	–	–	–	4,516.2	33.2%	4,157.0	36.3%
Available-for-sale financial assets	8.1	0.0%	8.1	0.1%	N/A	N/A	N/A	N/A
Investments classified as receivables	27,320.5	100.0%	13,588.4	99.9%	N/A	N/A	N/A	N/A
Total	**27,328.6**	**100.0%**	**13,596.5**	**100.0%**	**13,598.9**	**100.0%**	**11,452.0**	**100.0%**

Notes:

(1) Prepared in accordance with IAS 39.

(2) Prepared in accordance with IFRS 9.

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 from RMB27,328.6 million as of December 31, 2016 to RMB13,596.5 million as of December 31, 2017, which further decreased to RMB11,452.0 million as of December 31, 2018. Such continued decrease was primarily because we adjusted investment portfolio and reduced investment in certain 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,	
	2016		2017		2018		2018	
	Amount(1)	% of total	Amount(1)	% of total	Amount(2)	% of total	Amount(2)	% of total
					(unaudited)			
	(in millions of RMB, except percentages)							
Asset management plans								
Financial investments measured at amortized cost	N/A	N/A	N/A	N/A	25,561.8	73.6%	19,212.8	84.2%
Financial investments measured at fair value through other comprehensive income	N/A	N/A	N/A	N/A	2,115.6	6.1%	921.4	4.0%
Financial investments measured at fair value through profit or loss	–	–	–	–	7,064.9	20.3%	2,703.6	11.8%
Available-for-sale financial assets	1,011.8	3.5%	840.2	2.4%	N/A	N/A	N/A	N/A
Investments classified as receivables	27,998.7	96.5%	34,069.2	97.6%	N/A	N/A	N/A	N/A
Total	**29,010.5**	**100.0%**	**34,909.4**	**100.0%**	**34,742.3**	**100.0%**	**22,837.8**	**100.0%**

Notes:

(1) Prepared in accordance with IAS 39.

(2) Prepared in accordance with IFRS 9.

We entered into asset management contracts with quality securities companies and other asset management institutions who then invest our funds in specified products, primarily including fixed-income credit assets and debt securities, through our designated accounts with third-party custodian banks. Our holding of asset management plans increased from RMB29,010.5 million as of December 31, 2016 to RMB34,909.4 million as of December 31, 2017, primarily because we increased investment in the asset management plans that finance renovation projects for shanty towns in line with our strategy of supporting the economic development and urban construction of Shanxi Province. As of December 31, 2018, our holding of asset management plans decreased to RMB22,837.8 million, primarily due to our adjustment to the mix of our investment portfolio according to the PRC regulatory policies regulating the SPV investment.

Wealth Management Products Issued by Other Financial Institutions

	As of December 31,				As of January 1,		As of December 31,	
	2016		2017		2018		2018	
	Amount[(1)]	% of total	Amount[(2)]	% of total	Amount[(2)]	% of total	Amount[(2)]	% of total
					(unaudited)			
	(in millions of RMB, except percentages)							
Wealth management products								
Financial investments measured at fair value through profit or loss	–	–	–	–	1,547.9	100.0%	50.2	100.0%
Available-for-sale financial assets	150.0	100.0%	50.0	3.2%	N/A	N/A	N/A	N/A
Investments classified as receivables	–	–	1,500.0	96.8%	N/A	N/A	N/A	N/A
Total	**150.0**	**100.0%**	**1,550.0**	**100.0%**	**1,547.9**	**100.0%**	**50.2**	**100.0%**

Notes:

(1) Prepared in accordance with IAS 39.

(2) Prepared in accordance with IFRS 9.

Our holding of wealth management products issued by other financial institutions increased from RMB150.0 million as of December 31, 2016 to RMB1,550.0 million as of December 31, 2017, primarily because we increased investment in low-risk and short-term wealth management products issued by other banks to achieve higher return for our excessive funds while strictly controlling risks associated with such investment. As of December 31, 2018, holding of wealth management products issued by other financial institutions significantly decreased to RMB50.2 million, as certain wealth management products in which we invested in 2017 matured in 2018.

The following table sets forth a breakdown of our balance of the wealth management products issued by other financial institutions in which we invested by category as of the dates indicated.

	As of December 31,		
	2016	2017	2018
	Amount	Amount	Amount
	(in millions of RMB)		
Principal-protected	100.0	1,500.0	–
Non-principal protected	50.0	50.0	50.2
Balance of wealth management products	**150.0**	**1,550.0**	**50.2**

Funds

	As of December 31,				As of January 1,		As of December 31,	
	2016		2017		2018		2018	
	Amount(1)	% of total	Amount(1)	% of total	Amount(2)	% of total	Amount(2)	% of total
					(unaudited)			
	(in millions of RMB, except percentages)							
Funds								
Financial investments measured at fair value through profit or loss	2,853.1	80.8%	2,868.8	70.0%	4,100.4	100.0%	16,885.5	100.0%
Available-for-sale financial assets	678.2	19.2%	1,231.6	30.0%	N/A	N/A	N/A	N/A
Total	**3,531.3**	**100.0%**	**4,100.4**	**100.0%**	**4,100.4**	**100.0%**	**16,885.5**	**100.0%**

Notes:

(1) Prepared in accordance with IAS 39.

(2) Prepared in accordance with IFRS 9.

The funds we hold include monetary funds and bond funds. Our holding of funds increased from RMB3,531.3 million as of December 31, 2016 to RMB4,100.4 million as of December 31, 2017, and further increased to RMB16,885.5 million as of December 31, 2018. 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 meanwhile improving asset liquidity.

Distribution of Investment in Trust Plans and Asset Management Plans by Industry

The following table sets forth, as of December 31, 2018, the distribution of our investment in trust plans and asset management plans by industry.

	As of December 31, 2018			
	Trust plans	Asset management plans	Total	% of total
	(in millions of RMB, except for percentages)			
Real estate	1,196.2	6,521.1	7,717.3	22.5%
Mining	1,146.4	4,150.0	5,296.4	15.4%
Construction	2,530.8	2,052.4	4,583.2	13.4%
Finance	1,251.2	3,059.2	4,310.4	12.6%
Water, environment and public utilities	1,237.9	2,772.3	4,010.2	11.7%
Manufacturing	3,051.8	734.0	3,785.8	11.0%
Leasing and business services	290.0	2,897.0	3,187.0	9.3%

	As of December 31, 2018			
	Trust plans	Asset management plans	Total	% of total
	(in millions of RMB, except for percentages)			
Transportation, warehousing and postal services	445.0	71.5	516.5	1.5%
Wholesale and retail	–	351.9	351.9	1.0%
Culture, sports and Entertainment	195.0	–	195.0	0.6%
Others[(1)]	107.7	228.4	336.1	1.0%
Total investment in trust plans and asset management plans	**11,452.0**	**22,837.8**	**34,289.8**	**100.0%**

Note:

(1) Consist of various industries including (i) health and social services, (ii) agriculture, forestry, animal husbandry and fishery, and (iii) education.

Distribution of SPV Investment by Underlying Assets

The following table sets forth the breakdown of the our SPV investment by their underlying assets as of December 31, 2018.

	As of December 31, 2018					
	Trust plans	Asset management plans	Wealth management products[(1)]	Funds	Total	% of total
Debt securities	529.2	3,625.0	–	–	4,154.2	8.1%
Fixed-income credit assets	10,922.8	19,212.8	–	–	30,135.6	58.8%
Wealth management products	–	–	50.2	–	50.2	0.1%
Funds	–	–	–	16,885.5	16,885.5	33.0%
Total SPV investment	**11,452.0**	**22,837.8**	**50.2**	**16,885.5**	**51,225.5**	**100.0%**

Note:

(1) Refer to wealth management products issued by other financial institutions.

Distribution of SPV Investment by Collateral 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 collateral type as of the dates indicated.

	As of December 31,																	
	2016						2017						2018					
	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	Wealth management products[(1)]	Funds	Total	% of total
	(in millions of RMB, except percentages)																	
Pledge	21,556.6	14,582.8	–	–	36,139.4	60.2%	3,819.4	10,249.0	–	–	14,068.4	26.0%	1,690.6	5,464.0	–	–	7,154.6	14.0%
Collateral	1,829.0	2,170.2	–	–	3,999.2	6.7%	2,261.0	1,825.6	–	–	4,086.6	7.6%	3,103.0	767.5	–	–	3,870.5	7.6%
Guarantee	3,934.9	5,866.9	–	–	9,801.8	16.3%	4,737.7	9,585.2	–	–	14,322.9	26.4%	5,065.6	9,198.2	–	–	14,263.8	27.8%
Unsecured	8.1	6,390.6	150.0	3,531.3	10,080.0	16.8%	2,778.4	13,249.6	1,550.0	4,100.4	21,678.4	40.0%	1,592.8	7,408.1	50.2	16,885.5	25,936.6	50.6%
Total SPV investment	**27,328.6**	**29,010.5**	**150.0**	**3,531.3**	**60,020.4**	**100.0%**	**13,596.5**	**34,909.4**	**1,550.0**	**4,100.4**	**54,156.3**	**100.0%**	**11,452.0**	**22,837.8**	**50.2**	**16,885.5**	**51,225.5**	**100.0%**

Note:

(1) Refer to wealth management products issued by other financial institutions.

As of December 31, 2016, 2017 and 2018, unsecured SPV investment represented 16.8%, 40.0% and 50.6%, respectively, of our total SPV investment. The ultimate borrowers for the underlying assets of our unsecured SPV investments 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 government policy support, such as well-established state-owned enterprises with strong financing capabilities. As of the Latest Practicable Date, the credit quality of our existing unsecured SPV investments was in line with our credit extension and risk control policy. We confirm that we have been able to achieve expected returns from our unsecured SPV investments. For details, see "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 Collateral

The following table sets forth our allowance for impairment losses on SPV investment by collateral as of the dates indicated.

	As of December 31,					
	2016		2017		2018	
	SPV Investment	Impairment allowance	SPV Investment	Impairment allowance	SPV Investment	Impairment allowance
	(in millions of RMB)					
Pledge						
Pledged with equity interests in unlisted companies	2,718.6	93.8	3,651.4	61.6	3,754.6	104.6
Pledged with certificate of deposits	33,420.8	20.4	10,417.0	132.8	3,400.0	60.0
Subtotal	**36,139.4**	**114.2**	**14,068.4**	**194.4**	**7,154.6**	**164.6**
Collateral						
Collateralized with real estate or land	3,999.2	167.2	4,086.6	446.1	3,870.5	163.0
Subtotal	**3,999.2**	**167.2**	**4,086.6**	**446.1**	**3,870.5**	**163.0**
Guarantee						
Guarantee from unlisted companies	9,801.8	211.5	14,322.9	200.1	14,263.8	513.1
Subtotal	**9,801.8**	**211.5**	**14,322.9**	**200.1**	**14,263.8**	**513.1**
Unsecured	**10,080.0**	**93.2**	**21,678.4**	**193.5**	**25,936.6**	**93.6**
Total allowance for SPV investment	**60,020.4**	**586.1**	**54,156.3**	**1,034.1**	**51,225.5**	**934.3**

Other Financial Investments

Other financial investments consist primarily of certificates of interbank deposit. Other financial investments we hold increased significantly from RMB58.1 million as of December 31, 2016 to RMB2,363.2 million as of December 31, 2017, which further increased to RMB2,762.0 million as of December 31, 2018, mainly because we increased investment in certificates of interbank deposit to improve returns on investment after considering various factors such as market conditions and our asset allocation needs.

Investment Concentration

The table below sets forth the ten largest holdings of financial investments as of the date indicated.

Issuer	As of December 31, 2018			
	Carrying value	% of total financial investments	% of total equity	% of net capital base
	(in millions of RMB, except percentage)			
Investment A	2,866.6	3.7%	17.9%	14.4%
Investment B	2,000.0	2.6%	12.5%	10.0%
Investment C	1,760.0	2.3%	11.0%	8.8%
Investment D	1,758.0	2.3%	11.0%	8.8%
Investment E	1,750.0	2.3%	10.9%	8.8%
Investment F	1,500.0	1.9%	9.4%	7.5%
Investment G	1,217.4	1.6%	7.6%	6.1%
Investment H	1,203.3	1.6%	7.5%	6.0%
Investment I.	1,202.6	1.6%	7.5%	6.0%
Investment J(1)	1,200.0	1.6%	7.5%	6.0%
Investment K(1)	1,200.0	1.6%	7.5%	6.0%
Total	**17,657.9**	**23.1%**	**110.3%**	**88.4%**

Note:

(1) These investments were both the tenth largest financial investments, each with carrying value of RMB1,200.0 million as of December 31, 2018.

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, 2016		
	Industry	Amount	% of investment in trust plans
	(in millions of RMB, except percentages)		
Trust plan borrower A	Leasing and business services	2,000.0	7.3%
Trust plan borrower B	Information transmission, software and information technology services	1,700.0	6.2%
Trust plan borrower C	Finance	1,600.0	5.9%
Trust plan borrower D	Real estate	1,299.0	4.8%
Trust plan borrower E(1)	Water, environment and public utilities	1,000.0	3.7%
Trust plan borrower F(1)	Finance	1,000.0	3.7%
Trust plan borrower G(1)	Water, environment and public utilities	1,000.0	3.7%
Total		**9,599.0**	**35.3%**

Note:

(1) These three trust plan borrowers were all the fifth largest end borrowers, each under trust plans amounting to RMB1,000.0 million as of December 31, 2016.

	As of December 31, 2017		
	Industry	Amount	% of investment in trust plans
	(in millions of RMB, except percentages)		
Trust plan borrower H	Construction	1,200.0	8.8%
Trust plan borrower I	Construction	1,200.0	8.8%
Trust plan borrower J	Water, environment and public utilities	1,200.0	8.8%
Trust plan borrower K	Public administration, social security and social organizations	1,000.0	7.4%
Trust plan borrower L	Manufacturing	948.0	7.0%
Total		**5,548.0**	**40.8%**

	As of December 31, 2018		
	Industry	Amount	% of investment in trust plans
	(in millions of RMB, except percentages)		
Trust plan borrower H	Construction	1,204.8	10.5%
Trust plan borrower J	Water, environment and public utilities	1,203.3	10.5%
Trust plan borrower M	Construction	1,200.0	10.5%
Trust plan borrower N	Manufacturing	997.8	8.7%
Trust plan borrower O	Manufacturing	946.0	8.3%
Total		**5,551.9**	**48.5%**

The following table sets forth the five largest counterparties of our trust plans as of the dates indicated.

	As of December 31, 2016		
	Total assets as of December 31, 2016[(1)]	Amount	% of investment in trust plans
	(in millions of RMB, except percentages)		
Trust plan counterparty A	5,468.7	5,100.0	18.7%
Trust plan counterparty B	8,561.9	3,889.5	14.2%
Trust plan counterparty C	4,547.1	3,449.9	12.6%
Trust plan counterparty D	7,222.0	2,520.0	9.2%
Trust plan counterparty E	7,391.9	1,529.6	5.6%
Total		**16,489.0**	**60.3%**

	As of December 31, 2017		
	Total assets as of December 31, 2017[1]	Amount	% of investment in trust plans
	(in millions of RMB, except percentages)		
Trust plan counterparty E	8,492.9	5,511.2	40.5%
Trust plan counterparty B	14,014.3	3,442.9	25.3%
Trust plan counterparty F	7,337.0	1,206.4	8.9%
Trust plan counterparty G	2,797.0	1,200.0	8.8%
Trust plan counterparty H	36,235.4	1,000.0	7.4%
Total		**12,360.5**	**90.9%**

	As of December 31, 2018		
	Total assets as of December 31, 2018[1]	Amount	% of investment in trust plans
	(in millions of RMB, except percentages)		
Trust plan counterparty E	8,956.0	4,859.5	42.4%
Trust plan counterparty B	14,037.2	2,752.4	24.0%
Trust plan counterparty G	3,076.6	1,204.8	10.5%
Trust plan counterparty F	5,555.5	1,108.3	9.7%
Trust plan counterparty I	4,626.6	997.8	8.7%
Total		**10,922.8**	**95.3%**

Note:

(1) Source: each company's annual report.

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, 2016		
	Industry	Amount	% of investment in asset management plans
	(in millions of RMB, except percentages)		
Asset management plan borrower A	Manufacturing	1,250.0	4.3%
Asset management plan borrower B	Mining	1,180.0	4.1%
Asset management plan borrower C	Information transmission, software and information technology services	1,100.0	3.8%
Asset management plan borrower D	Mining	887.1	3.1%
Asset management plan borrower E	Finance	700.0	2.4%
Total		**5,117.1**	**17.7%**

	As of December 31, 2017		
	Industry	Amount	% of investment in asset management plans
	(in millions of RMB, except percentages)		
Asset management plan borrower F	Construction	2,000.0	5.7%
Asset management plan borrower G	Mining	1,900.0	5.4%
Asset management plan borrower H	Real estate	1,800.0	5.2%
Asset management plan borrower I	Real estate	1,800.0	5.2%
Asset management plan borrower J	Leasing and business services	1,760.0	5.0%
Total		**9,260.0**	**26.5%**

	As of December 31, 2018		
	Industry	Amount	% of investment in asset management plans
	(in millions of RMB, except percentages)		
Asset management plan borrower F	Construction	2,000.0	8.8%
Asset management plan borrower G	Mining	1,866.6	8.2%
Asset management plan borrower I	Real estate	1,760.0	7.7%
Asset management plan borrower K	Real estate	1,758.0	7.7%
Asset management plan borrower J	Leasing and business services	1,750.0	7.7%
Total		**9,134.6**	**40.1%**

The following table sets forth the five largest counterparties for our asset management plans as of the dates indicated.

	As of December 31, 2016		
	Total assets as of December 31, 2016[(1)]	Amount	% of investment in asset management plans
	(in millions of RMB, except percentages)		
Asset management plan counterparty A	25,629.6	5,297.8	18.3%
Asset management plan counterparty B	70,999.7	5,105.1	17.6%
Asset management plan counterparty C	597,438.8	4,810.7	16.6%
Asset management plan counterparty D	42,452.9	1,250.0	4.3%
Asset management plan counterparty E	48,057.7	1,079.5	3.7%
Total		**16,463.6**	**56.8%**

	As of December 31, 2017		
	Total assets as of December 31, 2017[(1)]	Amount	% of investment in asset management plans
	(in millions of RMB, except percentages)		
Asset management plan counterparty F	50,516.8	13,552.2	38.8%
Asset management plan counterparty B	63,694.3	3,728.5	10.7%
Asset management plan counterparty C	625,574.6	2,167.2	6.2%
Asset management plan counterparty G	299,943.3	2,000.0	5.7%
Asset management plan counterparty A	33,421.4	1,782.1	5.1%
Total		**23,230.0**	**66.5%**

	As of December 31, 2018		
	Total assets as of December 31, 2018[(1)]	Amount	% of investment in asset management plans
	(in millions of RMB, except percentages)		
Asset management plan counterparty F	46,799.8	9,371.2	41.0%
Asset management plan counterparty H	822.4	4,000.0	17.5%
Asset management plan counterparty C	653,132.7	2,400.0	10.5%
Asset management plan counterparty B	63,695.2	2,067.5	9.1%
Asset management plan counterparty I	16,508.5	1,770.0	7.8%
Total		**19,608.7**	**85.9%**

Note:

(1) Source: each company's annual report.

Concentration of Investment in Wealth Management Products Issued by Other Financial Institutions

The following table sets forth the five largest counterparties for our investment in wealth management products issued by other financial institutions as of the dates indicated.

	As of December 31, 2016		
	Total assets as of December 31, 2016(1)	Amount	% of investment in wealth management products(2)
	(in millions of RMB, except percentages)		
Bank A	206,538.6	100.0	66.7%
Bank B	1,063,899.8	50.0	33.3%
Total		**150.0**	**100.0%**

	As of December 31, 2017		
	Total assets as of December 31 2017(1)	Amount	% of investment in wealth management products(2)
	(in millions of RMB, except percentages)		
Bank C	15,959,288.0	1,500.0	96.8%
Bank B	1,141,162.8	50.0	3.2%
Total		**1,550.0**	**100.0%**

	As of December 31, 2018		
	Total assets as of December 31, 2018(1)	Amount	% of investment in wealth management products(2)
	(in millions of RMB, except percentages)		
Bank B	1,243,269.0	50.2	100.0%
Total		**50.2**	**100.0%**

Notes:

(1) Source: each company's annual report.

(2) Refer to wealth management products issued by other financial institutions.

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, 2016		
	Total assets as of December 31, 2016[1]	Amount	% of investment in funds
	(in millions of RMB, except percentages)		
Fund investment counterparty A	702.6	1,051.0	29.8%
Fund investment counterparty B	4,322.4	1,001.7	28.4%
Fund investment counterparty C	346.4	850.6	24.1%
Fund investment counterparty D	48,057.7	601.0	17.0%
Fund investment counterparty E	N/A[2]	27.0	0.7%
Total		**3,531.3**	**100.0%**

	As of December 31, 2017		
	Total assets as of December 31, 2017[1]	Amount	% of investment in funds
	(in millions of RMB, except percentages)		
Fund investment counterparty A	2,433.5	1,054.5	25.7%
Fund investment counterparty B	5,556.6	1,006.3	24.5%
Fund investment counterparty C	482.5	808.0	19.7%
Fund investment counterparty D	51,650.9	604.4	14.7%
Fund investment counterparty F	888.7	300.0	7.4%
Total		**3,773.2**	**92.0%**

	As of December 31, 2018		
	Total assets as of December 31, 2018[1]	Amount	% of investment in funds
	(in millions of RMB, except percentages)		
Fund investment counterparty B	6,713.0	1,519.3	9.0%
Fund investment counterparty G	7,826.8	1,299.9	7.7%
Fund investment counterparty F	1,395.2	1,096.2	6.5%
Fund investment counterparty A	2,836.2	1,016.1	6.0%
Fund investment counterparty H	9,625.3	1,004.4	5.8%
Total		**5,935.9**	**35.0%**

Notes:

(1) Source: each company's annual report.

(2) There is no publicly available and reliable information as of the Latest Practicable Date.

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) financial assets held under resale agreements, (v) interest in associates, (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 and surplus deposit reserves. Statutory deposit reserves represent the minimum level of cash deposits that we are required to maintain with the PBoC. The minimum level is determined as a percentage of our deposits from customers. For details of the statutory deposit reserve ratio, 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. As of December 31, 2016 and 2017, our cash and deposits with the central bank amounted to RMB23,318.2 million and RMB23,665.1 million, respectively. The slight increase in our cash and deposits with the central bank was primarily due to an increase in our statutory deposit reserves in line with the increase in our deposits from customers. Our cash and deposits with the central bank amounted to RMB23,589.7 million as of December 31, 2018, which remained relatively stable compared to the amount as of December 31, 2017.

Deposits with banks and other financial institutions consist primarily of our balances maintained with other banks and financial institutions for payment, settlement and clearance purposes. Our deposits with banks and other financial institutions increased slightly from RMB843.9 million as of December 31, 2016 to RMB858.4 million as of December 31, 2017, which was mainly attributable to the increased amount that we deposited for settlement purpose in line with the expansion of our business scale. Our deposits with banks and other financial institutions decreased slightly to RMB792.3 million as of December 31, 2018, as certain deposits that we maintained with other banks or financial institutions gradually matured in 2018.

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, 2016, 2017 and 2018, our placements with banks and other financial institutions was nil, RMB500.0 million and RMB500.1 million, respectively.

Financial assets held under resale agreements consist primarily of bills held under resale agreements and debt securities held under resale agreements. Our financial assets held under resale agreements increased by 97.3% from RMB5,730.4 million as of December 31, 2016 to RMB11,305.3 million as of December 31, 2017, and further increased to RMB24,180.0 million as of December 31, 2018, primarily due to our efforts to improve the efficiency of the use of funds by entering into more reverse repurchase transactions in accordance with our needs for assets and liabilities management.

Our interest in associates refers to our investment in Jinshang Consumer Finance. For details, please see "Business – Distribution Network – Consumer Finance Company". Our interest in associates increased by 9.0% from RMB200.4 million as of December 31, 2016 to RMB218.5 million as of December 31, 2017, and further increased by 15.2% to RMB251.7 million as of December 31, 2018. As of December 31, 2018, we held 40.0% equity interest in Jinshang Consumer Finance.

Our property and equipment decreased by 12.8% from RMB630.1 million as of December 31, 2016 to RMB549.3 million as of December 31, 2017, mainly due to the normal depreciation of our property and equipment resulting in a decrease in their book value. Our property and equipment increased by 35.9% to RMB746.6 million as of December 31, 2018, primarily reflecting an increase in our premises used for office and business purpose.

Our deferred tax assets increased by 46.7% from RMB730.3 million as of December 31, 2016 to RMB1,071.5 million as of December 31, 2017, primarily due to an increase in our allowance for impairment losses which mainly resulted from our increased loans and advances to customers. We have adopted IFRS 9 since January 1, 2018, according to which, our deferred tax assets as of January 1, 2018 amounted to RMB1,216.1 million, representing an increase from the amount as of December 31, 2017 under IAS 39. This increase was primarily caused by (i) an increase in our allowance for impairment losses as a result of our application of the expected credit loss model under IFRS 9; and (ii) a decrease in the changes of relevant assets' fair value, which was caused by reclassification of financial investments due to changes of accounting policies. For details, see Note 23 of the Accountants' Report in Appendix I to this prospectus. As of December 31, 2018, our deferred tax assets increased slightly to RMB1,268.8 million from RMB1,216.1 million as of January 1, 2018, primarily caused by an increase in our allowance for impairment losses as a result of increased loans to customers.

Our other assets consist primarily of interest receivables, prepayments for acquisition of property and equipment and other receivables. Our other assets increased by 21.0% from RMB1,869.5 million as of December 31, 2016 to RMB2,262.8 million as of December 31, 2017, which was in line with the growth of our asset scale. Our other assets decreased by 54.2% to RMB1,035.9 million as of December 31, 2018, mainly reflecting 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, certain interest accrued on loans and financial investments were no longer included in the interest receivables in 2018.

LIABILITIES AND SOURCES OF FUNDS

Our total liabilities increased by 17.4% from RMB163,714.6 million as of December 31, 2016 to RMB192,193.5 million as of December 31, 2017, and further increased by 9.9% to RMB211,251.9 million as of December 31, 2018, primarily due to increases in our deposits from customers and the debt securities issued by us.

The following table sets forth the components of our total liabilities as of the dates indicated.

	As of December 31,					
	2016		2017		2018(2)	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Deposits from customers	116,301.4	71.0%	136,198.9	70.8%	144,896.8	68.6%
Financial assets sold under repurchase agreements	1,241.2	0.8%	10,301.2	5.4%	8,680.4	4.1%
Deposits from banks and other financial institutions	30,021.8	18.3%	11,468.7	6.0%	2,513.7	1.2%
Placements from banks and other financial institutions	100.0	0.1%	500.0	0.3%	100.0	0.0%
Debt securities issued	11,767.3	7.2%	26,163.2	13.6%	51,288.9	24.3%
Borrowing from the central bank	370.0	0.2%	1,025.0	0.5%	590.0	0.3%
Income tax payable	0.7	0.0%	336.2	0.2%	106.2	0.1%
Other liabilities(1)	3,912.2	2.4%	6,200.3	3.2%	3,075.9	1.4%
Total liabilities	**163,714.6**	**100.0%**	**192,193.5**	**100.0%**	**211,251.9**	**100.0%**

Notes:

(1) Other liabilities consist primarily of interests payable, payment and collection clearance accounts, accrued staff cost and dividend payable.

(2) Pursuant to the relevant regulatory policy 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 for 2018.

Deposits from Customers

Deposits from customers have historically been our primary source of funding, representing 71.0%, 70.8% and 68.6% of our total liabilities as of December 31, 2016, 2017 and 2018, respectively. We provide demand and time deposit products to corporate and retail banking customers. The following table sets forth our deposits from customers by product type as of the dates indicated.

	As of December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Corporate deposits						
Demand	20,718.4	17.9%	41,610.7	30.5%	36,977.4	25.8%
Time	49,826.8	42.8%	35,411.0	26.0%	35,037.0	24.5%
Subtotal	70,545.2	60.7%	77,021.7	56.5%	72,014.4	50.3%
Personal deposits						
Demand	7,779.0	6.7%	9,536.0	7.0%	10,878.3	7.6%
Time	28,202.0	24.2%	39,189.9	28.8%	47,071.7	32.9%
Subtotal	35,981.0	30.9%	48,725.9	35.8%	57,950.0	40.5%
Pledged deposits(1)						
Acceptances	7,792.0	6.7%	6,909.4	5.1%	10,095.7	7.1%
Letters of credit and guarantees	34.0	0.0%	313.1	0.2%	284.6	0.2%
Letters of guarantees	–	–	–	–	41.0	0.0%
Others	1,824.1	1.6%	3,071.3	2.3%	2,670.2	1.9%
Subtotal	9,650.1	8.3%	10,293.8	7.6%	13,091.5	9.1%
Fiscal deposits	20.5	0.0%	3.1	0.0%	–	–
Inward and outward remittances	104.6	0.1%	154.4	0.1%	120.1	0.1%
Total	**116,301.4**	**100.0%**	**136,198.9**	**100.0%**	**143,176.0**	**100.0%**
Interests accrued(2)	–		–		1,720.8	
Deposits from customers	**116,301.4**		**136,198.9**		**144,896.8**	

Notes:

(1) Refer to the funds deposited with us by customers as security in order to conduct difference business.

(2) Pursuant to the relevant regulatory policy 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 for 2018.

Our total deposits from customers (excluding interest accrued) increased by 17.1% from RMB116,301.4 million as of December 31, 2016 to RMB136,198.9 million as of December 31, 2017, and further increased by 5.1% to RMB143,176.0 million as of December 31, 2018, primarily due to the increase in our 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 increased by 9.2% from RMB70,545.2 million as of December 31, 2016 to RMB77,021.7 million as of December 31, 2017, primarily because we kept developing corporate deposit business by enriching our deposit products, improving customers' user experience and increasing marketing efforts. Our corporate deposits decreased by 6.5% to RMB72,014.4 million as of December 31, 2018, primarily due to (i) withdrawal of demand deposits by some corporate borrowers from our Bank due to their need of production and operation; (ii) gradual maturity of certain corporate time deposits with relatively high interest rates in 2018, which we did not continue to accept so as to optimize our deposit structure and control the costs; and (iii) the increasingly intense market competition.

Our personal deposits increased by 35.4% from RMB35,981.0 million as of December 31, 2016 to RMB48,725.9 million as of December 31, 2017, and further increased by 18.9% to RMB57,950.0 million as of December 31, 2018, primarily because we continuously enriched individual savings and product types.

Our pledged deposits increased from RMB9,650.1 million as of December 31, 2016 to RMB10,293.8 million as of December 31, 2017, and further increased to RMB13,091.5 million as of December 31, 2018, primarily attributable to our vigorous development of acceptance bill and letter of credit business.

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,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Taiyuan	85,194.1	73.3%	101,803.3	74.7%	104,167.3	72.8%
Outside Taiyuan	31,107.3	26.7%	34,395.6	25.3%	39,008.7	27.2%
Total deposits from customers	**116,301.4**	**100.0%**	**136,198.9**	**100.0%**	**143,176.0**	**100.0%**

Distribution of Deposits from Customers by Currency

Substantially all 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,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
RMB-denominated deposits	116,296.0	100.0%	136,198.1	100.0%	143,175.1	100.0%
USD-denominated deposits	5.3	0.0%	0.7	0.0%	0.8	0.0%
Other foreign currency-denominated deposits	0.1	0.0%	0.1	0.0%	0.1	0.0%
Total deposits from customers	**116,301.4**	**100.0%**	**136,198.9**	**100.0%**	**143,176.0**	**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, 2018											
	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	36,977.4	25.8%	10,316.3	7.2%	15,142.3	10.6%	9,528.4	6.7%	50.0	0.0%	72,014.4	50.3%
Personal deposits	10,902.7	7.6%	6,207.8	4.3%	9,551.9	6.7%	31,251.1	21.8%	36.5	0.0%	57,950.0	40.4%
Pledged deposits[(1)]	4,005.1	2.8%	2,522.5	1.8%	6,558.9	4.6%	5.0	0.0%	–	–	13,091.5	9.2%
Others[(2)]	120.1	0.1%	–	–	–	–	–	–	–	–	120.1	0.1%
Total deposits from customers	**52,005.3**	**36.3%**	**19,046.6**	**13.3%**	**31,253.1**	**21.9%**	**40,784.5**	**28.5%**	**86.5**	**0.0%**	**143,176.0**	**100.0%**

Notes:

(1) Refer to the funds deposited with us by customers as security in order to conduct difference business.

(2) Consist of fiscal deposits and inward and outward remittances.

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,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
RMB500 million or more	40,172.1	57.0%	42,242.8	54.9%	42,000.2	58.3%
RMB100 million up to less than RMB500 million	15,117.4	21.4%	19,563.7	25.4%	15,411.5	21.4%
RMB50 million up to less than RMB100 million	7,003.7	10.0%	5,032.2	6.5%	4,754.2	6.6%
Less than RMB50 million	8,252.0	11.6%	10,183.0	13.2%	9,848.5	13.7%
Total corporate deposits	**70,545.2**	**100.0%**	**77,021.7**	**100.0%**	**72,014.4**	**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,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
RMB5 million or more	4,118.7	11.4%	5,089.9	10.4%	6,031.7	10.5%
RMB1 million up to less than RMB5 million	5,291.4	14.7%	9,285.1	19.1%	11,759.5	20.3%
RMB100,000 up to less than RMB1 million	19,153.3	53.2%	26,175.2	53.7%	32,371.8	55.8%
Less than RMB100,000	7,417.6	20.7%	8,175.7	16.8%	7,787.0	13.4%
Total personal deposits	**35,981.0**	**100.0%**	**48,725.9**	**100.0%**	**57,950.0**	**100.0%**

Other Components of Our Liabilities

Other components of our liabilities consisted primarily of (i) financial assets sold under repurchase agreements, (ii) deposits from banks and other financial institutions, (iii) placements from banks and other financial institutions, (iv) debt securities issued, (v) borrowing from the central bank, (vi) income tax payable and (vii) other liabilities.

Our financial assets sold under repurchase agreements increased significantly RMB1,241.2 million as of December 31, 2016 to RMB10,301.2 million as of December 31, 2017, primarily because we increased the financial assets sold under repurchase agreements to raise funds in 2017 based on our business strategy and investment scale. Our financial assets sold under repurchase agreements decreased by 15.7% to RMB8,680.4 million as of December 31, 2018, because we actively optimized our liability structure by increasing the funds from other channels including deposits from customers and issuance of debt securities in line with our liquidity risk management policies.

Our deposits from banks and other financial institutions decreased by 61.8% RMB30,021.8 million as of December 31, 2016 to RMB11,468.7 million as of December 31, 2017, which further decreased by 78.1% to RMB2,513.7 million as of December 31, 2018, primarily due to our adjustment to the mix of financing structure by increasing the funds we obtained from issuing debt securities and deposits from customers while reducing deposits from banks and other financial institutions, which was in line with our risk management policies and business strategy.

Our placements from banks and other financial institutions increased significantly RMB100.0 million as of December 31, 2016 to RMB500.0 million as of December 31, 2017, as we increased the placements from banks and other financial institutions in 2017 based on our business needs and market conditions. Our placements from banks and other financial institutions decreased to RMB100.0 million as of December 31, 2018.

Debt securities issued consisted primarily of certificates of interbank deposit, financial bonds and tier-two capital bonds 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 RMB11,767.3 million, RMB26,163.2 million and RMB51,288.9 million as of December 31, 2016, 2017 and 2018, respectively.

Our borrowing from the central bank increased significantly from RMB370.0 million as of December 31, 2016 to RMB1,025.0 million as of December 31, 2017, mainly due to the increased standing lending facility from the central bank in 2017 driven by our liquidity needs. Our borrowing from the central bank decreased to RMB590.0 million as of December 31, 2018, primarily attributable to the gradual maturity of the existing standing lending facility from the central bank in 2018.

Our income tax payable increased significantly from RMB0.7 million as of December 31, 2016 to RMB336.2 million as of December 31, 2017, primarily because our disposal of certain NPLs in 2016 resulted in an increase in the deductible expenses before tax according to relevant tax policies, which further led to decreased income tax payable at the end of 2016. Our income tax payable decreased significantly to RMB106.2 million as of December 31, 2018, mainly due to our disposal of certain NPLs in 2018 which caused the increased deductible expenses before tax according to relevant tax policies and further resulted in the decreased income tax payable as of December 31, 2018. For details of the risks relating to our disposal of NPLs, please see "Risk Factors – Risks Relating to Our Business – We disposed of certain non-performing assets and should we become unable to dispose of or transfer such assets in the future, our liquidity, financial condition and results of operations may be affected".

Our other liabilities consisted primarily of interests payable, payment and collection clearance accounts, accrued staff cost and dividends payable. Our other liabilities increased by 58.5% from RMB3,912.2 million as of December 31, 2016 to RMB6,200.3 million as of December 31, 2017. As of December 31, 2018, our other liabilities decreased to RMB3,075.9 million. The fluctuations of other liabilities during the Track Record Period were mainly caused by the fact that, we received entrusted funds of RMB2,997 million at the end of 2017 to be used for entrusted loans, which we later cancelled and returned such funds in early 2018 pursuant to the *Measures for the Administration of Entrusted Loans of Commercial Banks* (商業銀行委託貸款管理辦法) issued by CBRC in early 2018. Other liabilities also include contract liabilities of RMB45.2 million, which was the aggregated amount of transaction price allocated to the remaining performance obligations under our existing contracts. This amount represents income expected to be recognized in the future from acceptance and guarantee services. We will recognize the expected income in future as the services are provided.

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 CBRC 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 only provincial city commercial bank in Shanxi Province. In 2018, we were ranked 440th among the "Top 1000 World Banks" in terms of tier-one capital as of December 31, 2017 by *The Banker*, moving up 136 places compared with our ranking in 2017. Our total assets increased from RMB173,385.9 million as of December 31, 2016 to RMB206,869.8 million as of December 31, 2017, and further to RMB227,247.8 million as of December 31, 2018. We ranked first among all city commercial banks in Shanxi Province in terms of total assets, total deposits from customers and total loans to customers as of December 31, 2017.

We have established an extensive business network covering Shanxi Province. As of December 31, 2018, we had a business network comprising 160 outlets that covered all 11 prefecture-level cities in Shanxi Province.

Our net profit increased by 19.2% from RMB1,031.9 million for the year ended December 31, 2016 to RMB1,230.5 million for the year ended December 31, 2017, and further increased by 6.8% to RMB1,313.6 million for the year ended December 31, 2018. As of December 31, 2018, our deposits from customers and net loans and advances to customers amounted to RMB144,896.8 million and RMB98,118.1 million, respectively.

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 Shanxi Province

As a city commercial bank headquartered in Taiyuan with business penetration into Shanxi Province, our financial conditions and results of operations are affected by the economic conditions of the PRC, in particular, Shanxi Province, and the macroeconomic policies implemented by PRC Government.

From 2014 to 2018, according to the NBS, the PRC's GDP grew at a CAGR of 8.9% from RMB64.1 trillion in 2014 to RMB90.0 trillion in 2018. 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 city commercial banks. For example, according to the PBoC, from December 31, 2014 to December 31, 2018, total RMB-denominated loans and RMB-denominated deposits of the PRC financial institutions grew at a CAGR of 13.7% and 11.7%, respectively. According to the CBIRC, total assets of PRC commercial banks in the banking industry have reached RMB210.0 trillion as of December 31, 2018, representing a CAGR of 11.7% from December 31, 2014.

Capitalizing on continued industry consolidation and improvement of market conditions encouraged by various favorable policies promulgated by PRC Government, Shanxi Province has taken proactive measures to promote economic structural transformation, resulting in strong economic development in recent years, particularly since the second half of 2016. According to its *13th Five-Year Plan for Development of Central China* (促進中部地區崛起"十三五"規劃) published in 2016 and related policies, the State Council recognizes the strategic importance of economic development of Central China and requests the local governments to take proactive measures to ensure that local economy develop in line with national initiatives designed to improve the comprehensive strength and competitiveness of Central China. These initiatives aim at the upgrade and innovation of industries, integration of urban and rural areas, development of modern infrastructure and promotion of the living standard of residents. In addition, in its *Opinions on Supporting Shanxi Province's Further Reform on Transforming and Developing Its Resource-based Economy* (關於支持山西省進一步深化改革促進資源型經濟轉型發展的意見) issued by the State Council in 2017, Shanxi Province is designated as the demonstration zone for the transformation of the resource-based economy in China. According to the *Opinions on Supporting the Cooperation Between Shanxi Province and the Beijing-Tianjin-Hebei Region to Realize Joint Development* (關於支持山西省與京津冀地區加強協作實現聯動發展的意見) issued by NDRC in 2018, it is the national policy to integrate Shanxi Province and Beijing-Tianjin-Hebei region to achieve joint development and mutual beneficial results. These policies have promoted and are expected to further ensure improvement and sustainable development of Shanxi Province's economy. According to the NBS, the GDP for Shanxi Province amounted to RMB1,552.8 billion in 2017, representing a CAGR of 5.2% from 2013 to 2017. In 2018, the GDP of Shanxi Province further increased to RMB1,681.8 billion and the real GDP growth rate of Shanxi Province was 6.7%, which continued the trend of recovery since the second half of 2016. For details, please see "Industry Overview – National and Regional Economy – Shanxi Province's Economy".

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. According to the preliminary accounting results of GDP for 2018 released by the NBS, China's real GDP growth rate was 6.6% in 2018. The slowdown of growth in the overall economy and certain industries in China may affect the results of operations and financial condition of PRC city commercial banks.

Interest Rates

Our operating income depends substantially on our net interest income. For the years ended December 31, 2016, 2017 and 2018, our net interest income accounted for 89.0%, 91.5% and 66.9% 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. The PBoC's interest rate adjustments for loans and deposits may be asymmetrical in certain circumstances, 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 September 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 PRC Government still requires relevant authorities to stringently implement diversified credit policies). 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 city commercial banks are mainly regulated by the CBIRC and the PBoC. Additionally, PRC city commercial banks are also subject to the supervision and regulation of other regulatory authorities, including the SAFE, CSRC, MOF, NAO, NDRC, SAT and SAIC and their authorized branches. Please see "Supervision and Regulation – Principal Regulators".

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 (MPA) 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, on March 1, 2016, the PBoC lowered the statutory deposit reserve ratio by 50 basis points for all deposit-taking financial institutions, which lowered banks' funding costs and increased their liquidity. These macroeconomic and monetary policies have had a significant impact on the lending activities of PRC city commercial banks and borrowers' demand for bank financing, which in turn may affect the business, results of operations and financial condition of PRC city 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 business activities PRC city commercial banks are permitted to engage in, interest and fees PRC city commercial banks are allowed to charge, and restrictions imposed by regulatory authorities on PRC city 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 city 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. For instance, products and services offered by online financial product market places and P2P lending platforms may materially and negatively affect market demand for personal loans and personal deposit services from our bank.

Competitive Landscape in the PRC Banking Industry

We compete primarily with commercial banks operating in Shanxi Province, mainly on product offerings and prices, service quality, brand recognition, distribution networks and information technology capabilities. We also mainly face competition from other banking financial institutions in Shanxi Province.

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 loans and deposits as well as our fee-and commission-based banking business. Please see "Business – Competition".

SELECTED FINANCIAL DATA

The following table sets forth our results of operations for the years indicated.

	For the year ended December 31,		
	2016	2017	2018
	(in millions of RMB)		
Interest income	7,663.0	8,199.5	8,345.0
Interest expense	(4,147.9)	(4,184.3)	(5,166.2)
Net interest income	**3,515.1**	**4,015.2**	**3,178.8**
Fee and commission income	436.3	374.0	490.3
Fee and commission expense	(33.4)	(42.3)	(66.6)
Net fee and commission income	**402.9**	**331.7**	**423.7**
Net trading (losses)/gains	(60.5)	(59.9)	231.8
Net gains arising from investment securities	82.2	91.3	887.4
Other operating income[(1)]	10.1	7.6	31.1
Operating income	**3,949.8**	**4,385.9**	**4,752.8**
Operating expenses	(1,707.4)	(1,680.3)	(1,750.8)
Impairment losses on assets	(905.1)	(1,203.5)	(1,535.5)
Operating profit	**1,337.3**	**1,502.1**	**1,466.5**
Share of profits of associates	0.4	18.1	33.2
Profit before tax	**1,337.7**	**1,520.2**	**1,499.7**
Income tax	(305.8)	(289.7)	(186.1)
Net profit	**1,031.9**	**1,230.5**	**1,313.6**
Net profit attributable to non-controlling interests	5.4	3.5	3.3
Net profit attributable to equity shareholders of the Bank	1,026.5	1,227.0	1,310.3
Basic earnings per share (RMB/share)	0.31	0.33	0.27
Diluted earnings per share (RMB/share)	0.31	0.33	0.27

Note:

(1) Consists primarily of penalty income, government grants, and net gains from disposal of repossessed and self-used property and equipment.

	As of December 31,		
	2016	2017	2018
	(in millions of RMB)		
Total assets	**173,385.9**	**206,869.8**	**227,247.8**
Loans and advances to customers	66,484.0	94,250.4	98,118.1
Total liabilities	**163,714.6**	**192,193.5**	**211,251.9**
Deposits from customers	116,301.4	136,198.9	144,896.8
Total equity attributable to equity shareholders of the Bank	**9,636.4**	**14,642.8**	**15,969.9**

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

	For the year ended December 31,		
	2016	2017	2018
Profitability indicators			
Return on average assets(1)	0.62%	0.65%	0.61%
Return on average equity(2)	11.05%	10.11%	8.70%
Net interest spread(3)	1.81%	2.03%	1.68%
Net interest margin(4)	2.09%	2.25%	1.70%
Cost-to-income ratio(5)	39.29%	37.19%	35.75%

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 by dividing net profit for the year by the average balance of total equity at the beginning and the end of the year.

(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 increased from 0.62% in 2016 to 0.65% in 2017, primarily attributable to our enhanced profitability. Return on average assets decreased from 0.65% in 2017 to 0.61% in 2018, primarily because the average cost on interest-bearing liabilities increased from 2.56% to 2.79%, which was further caused by (i) the increase in both the balance and the interest rates of the certificates of interbank deposit issued by us; and (ii) the increased proportion taken up by personal time deposits which had relatively high cost.

Our return on average equity decreased from 11.05% in 2016 to 10.11% in 2017, and further decreased to 8.70% in 2018. The continued decrease in our return on average equity was mainly due to (i) increases in our equity as a result of cash injection from investors in both 2017 and 2018, which was in relation to our issuance of shares completed in February 2018; and (ii) the higher average cost on our interest-bearing liabilities mainly driven by increases in the certificate of interbank deposit issued by us and personal time deposits both of which had relatively high cost.

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, 2017 and 2018 – Net Interest Spread and Net Interest Margin" and "– Results of Operations for the Years Ended December 31, 2016 and 2017 – 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, 2017 and 2018 – Operating Expenses" and "– Results of Operations for the Years Ended December 31, 2016 and 2017 – 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,		
		2016	2017	2018
Capital adequacy indicators				
Core tier-one capital adequacy ratio(1)	≥7.50%	9.65%	10.16%	10.63%
Tier-one capital adequacy ratio(2)	≥8.50%	9.65%	10.16%	10.63%
Capital adequacy ratio(3)	≥10.50%	12.50%	12.52%	12.99%
Asset quality indicators				
NPL ratio(4)	≤5.00%	1.87%	1.64%	1.87%
Allowance coverage ratio(5)	≥150.00%	163.52%	183.96%	212.68%
Allowance to gross loan ratio(6)	≥2.50%	3.05%	3.02%	3.97%
Other indicator				
Loan-to-deposit ratio(7)	N/A	58.97%	71.36%	70.99%

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 – Latest Supervisory Standards 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. For details, please see "Supervision and Regulation – Supervision over Capital Adequacy – Latest Supervisory Standards 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 – Latest Supervisory Standards 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 to customers by total NPLs.

(6) Calculated by dividing total allowance for impairment losses on loans 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.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2018

For the year ended December 31, 2017, our net profit amounted to RMB1,230.5 million according to IAS 39.

Assuming we still apply IAS 39 in 2018, our net profit for the year ended December 31, 2018 would be RMB1,322.7 million, representing a 7.5% increase from the net profit for the year ended December 31, 2017, primarily attributable to the increases in our net fee and commission income, net trading gains and net gains arising from investment securities, which were in line with our business expansion.

We have adopted IFRS 9 since January 1, 2018 to replace IAS 39. According to IFRS 9, our net profit for the year ended December 31, 2018 amounted to RMB1,313.6 million, which was less than the result for the same period should we apply IAS 39. This difference is mainly attributed to an increase in the impairment losses on assets due to the application of the new expected credit loss impairment model under IFRS 9. For details on the 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".

Net Interest Income

Net interest income was the largest component of our operating income, representing 91.5% and 66.9% of our operating income for the years ended December 31, 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[1]	2018[1]	2018[2]
	(unaudited)		
	(in millions of RMB)		
Interest income	8,199.5	8,923.1	8,345.0
Interest expense	(4,184.3)	(5,166.2)	(5,166.2)
Net interest income	**4,015.2**	**3,756.9**	**3,178.8**

Notes:

(1) prepared according to IAS 39.

(2) prepared according to IFRS 9.

For the year ended December 31, 2017, our net interest income amounted to RMB4,015.2 million according to IAS 39. Assuming we still apply IAS 39 in 2018, our net interest income for the year ended December 31, 2018 would amount to RMB3,756.9 million, representing a 6.4% decrease from the net interest income for the year ended December 31, 2017. This decrease is attributable to a 23.5% increase in the interest expense for the same periods, which is partially offset by a 8.8% increase in the interest income.

We have adopted IFRS 9 from January 1, 2018 to replace IAS 39. According to IFRS 9, our net interest income for the year ended December 31, 2018 amounted to RMB3,178.8 million, which was less than the result for the same year should we apply IAS 39, mainly because the interest income from financial investments measured at fair value through profit or loss under IAS 39 was recognized in the "net gains arising from investment securities" rather than "interest income" according to IFRS 9. For details on 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".

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 yields on assets or related average cost on liabilities for the years indicated.

	For the year ended December 31,								
	2017(1)			2018(1)			2018(2)		
	Average balance	Interest income/ expense	Average yield/cost(3)	Average balance	Interest income/ expense	Average yield/cost(3)	Average balance	Interest income/ expense	Average yield/cost(3)
	(unaudited) (in millions of RMB, except percentages)								
Interest-earning assets									
Loans and advances to customers	85,437.7	4,469.6	5.23%	105,578.3	5,579.7	5.28%	105,578.3	5,579.7	5.28%
Financial investments(4)	66,696.3	3,171.4	4.75%	61,805.2	2,725.8	4.41%	51,876.7	2,147.7	4.14%
Placements with banks and other financial institutions	84.2	2.8	3.33%	852.8	23.1	2.71%	852.8	23.1	2.71%
Financial assets held under resale agreements	5,590.4	228.9	4.09%	5,982.6	241.5	4.04%	5,982.6	241.5	4.04%
Deposits with the central bank(5)	19,880.6	299.0	1.50%	21,426.1	322.2	1.50%	21,426.1	322.2	1.50%
Deposits with banks and other financial institutions	967.5	27.8	2.87%	1,180.6	30.8	2.61%	1,180.6	30.8	2.61%
Total interest-earning assets	**178,656.7**	**8,199.5**	**4.59%**	**196,825.6**	**8,923.1**	**4.53%**	**186,897.1**	**8,345.0**	**4.47%**
Interest-bearing liabilities									
Deposits from customers	125,318.5	2,542.1	2.03%	138,792.8	3,020.5	2.18%	138,792.8	3,020.5	2.18%
Deposits from banks and other financial institutions	17,183.6	756.5	4.40%	7,152.3	337.3	4.72%	7,152.3	337.3	4.72%
Placements from banks and other financial institutions	101.5	3.1	3.05%	79.7	2.1	2.63%	79.7	2.1	2.63%
Financial assets sold under repurchase agreements	4,857.1	173.0	3.56%	4,105.6	127.2	3.10%	4,105.6	127.2	3.10%
Debt securities issued(6)	15,580.3	706.8	4.54%	34,929.0	1,674.1	4.79%	34,929.0	1,674.1	4.79%
Borrowing from the central bank	92.9	2.8	3.01%	169.1	5.0	2.96%	169.1	5.0	2.96%
Total interest-bearing liabilities	**163,133.9**	**4,184.3**	**2.56%**	**185,228.5**	**5,166.2**	**2.79%**	**185,228.5**	**5,166.2**	**2.79%**
Net interest income		**4,015.2**			**3,756.9**			**3,178.8**	
Net interest spread(7)			**2.03%**			**1.74%**			**1.68%**
Net interest margin(8)			**2.25%**			**1.91%**			**1.70%**

Notes:

(1) Prepared in accordance with IAS 39.

(2) Prepared in accordance with IFRS 9.

(3) Calculated by dividing interest income/expense by average balance.

(4) For the year ended December 31, 2017, 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. For the year ended December 31, 2018, financial investments consists of financial investments measured at amortized costs, financial investments measured at fair value through other comprehensive income and financial investments measured at fair value through profit or loss. For details, see "Assets and Liabilities – Assets – Financial Investments" .

(5) Consists primarily of statutory deposit reserves and surplus deposit reserves.

(6) Consists of certificates of interbank deposit, financial bonds and tier-two capital debts issued by us.

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

(8) 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.

	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	1,053.6	56.5	1,110.1
Financial investments	(704.7)	(319.0)	(1,023.7)
Financial assets held under resale agreements	16.1	(3.5)	12.6
Deposits with the central bank[(4)]	23.2	0.0	23.2
Deposits with banks and other financial institutions	6.1	(3.1)	3.0
Placements with banks and other financial institutions	25.6	(5.3)	20.3
Changes in interest income	**419.9**	**(274.4)**	**145.5**
Liabilities			
Deposits from customers	273.3	205.1	478.4
Deposits from banks and other financial institutions	(441.6)	22.4	(419.2)
Placements from banks and other financial institutions	(0.7)	(0.3)	(1.0)
Financial assets sold under repurchase agreements	(26.8)	(19.0)	(45.8)
Debt securities issued[(5)]	877.8	89.5	967.3
Borrowing from the central bank	2.3	(0.1)	2.2
Changes in interest expense	**684.3**	**297.6**	**981.9**
Changes in net interest income	**(264.4)**	**(572.0)**	**(836.4)**

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 and surplus deposit reserves.

(5) Consists of certificates of interbank deposit, financial bonds and tier-two capital bonds issued by us.

Interest Income

Our interest income amounted to RMB8,199.5 million in 2017 according to IAS 39. Assuming we still apply IAS 39 in 2018, our interest income in 2018 would amount to RMB8,923.1 million. Should we apply IAS 39 in 2018, our interest income would experience an increase from RMB8,199.5 million in 2017 to RMB8,923.1 million in 2018, mainly attributed to (i) an increase in the average balance of our interest-earning assets from RMB178,656.7 million in 2017 to RMB196,825.6 million in 2018, which was partially offset by a decrease in the average yield on our interest-earning assets from 4.59% in 2017 to 4.53% in 2018.

We have adopted IFRS 9 since January 1, 2018 to replace IAS 39. According to IFRS 9, our interest income amounted to RMB8,345.0 million in 2018, which was less than the result in the same year should we apply IAS 39, primarily because the interest income from financial investments measured at fair value through profit or loss under IAS 39 was recognized in the "net gains arising from investment securities" rather than "interest income" 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".

The following table sets forth a breakdown of our interest income for the years indicated.

	For the year ended December 31,					
	2017[(1)]		2018[(1)]		2018[(2)]	
	Amount	% of total	Amount	% of total	Amount	% of total
			(unaudited)			
	(in millions of RMB, except percentages)					
Interest income from						
Loans and advances to customers						
Corporate Loans	3,207.7	39.1%	3,963.0	44.4%	3,963.0	47.5%
Personal loans	491.1	6.0%	728.3	8.2%	728.3	8.7%
Discounted bills	770.8	9.4%	888.4	10.0%	888.4	10.6%
Subtotal	**4,469.6**	**54.5%**	**5,579.7**	**62.6%**	**5,579.7**	**66.8%**
Financial investments	3,171.4	38.7%	2,725.8	30.5%	2,147.7	25.7%
Placements with banks and other financial institutions	2.8	0.1%	23.1	0.3%	23.1	0.3%
Financial assets held under resale agreements	228.9	2.8%	241.5	2.7%	241.5	2.9%
Deposits with the central bank	299.0	3.6%	322.2	3.6%	322.2	3.9%
Deposits with banks and other financial institutions	27.8	0.3%	30.8	0.3%	30.8	0.4%
Total interest income	**8,199.5**	**100.0%**	**8,923.1**	**100.0%**	**8,345.0**	**100.0%**

Notes:

(1) Prepared in accordance with IAS 39.

(2) Prepared in accordance with IFRS 9.

Interest Income from Loans and Advances to Customers

Our interest income from loans and advances to customers represented 54.5% and 66.8% of our interest income for 2017 and 2018, 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,					
	2017			2018		
	Average balance	Interest income	Average yield(1)	Average balance	Interest income	Average yield(1)
	(in millions of RMB, except percentages)					
Corporate loans	58,967.8	3,207.7	5.44%	73,359.0	3,963.0	5.40%
Personal loans	8,700.2	491.1	5.64%	14,488.3	728.3	5.03%
Discounted bills	17,769.7	770.8	4.34%	17,731.0	888.4	5.01%
Total loans and advances to customers	**85,437.7**	**4,469.6**	**5.23%**	**105,578.3**	**5,579.7**	**5.28%**

Note:

(1) Calculated by dividing interest income by average balance.

Our interest income from loans and advances to customers increased by 24.8% from RMB4,469.6 million in 2017 to RMB5,579.7 million in 2018, primarily due to (i) a 23.6% increase in the average balance of loans and advances to customers from RMB85,437.7 million in 2017 to RMB105,578.3 million in 2018, and (ii) an increase in the average yield on loans and advances to customers from 5.23% in 2017 to 5.28% in 2018. The increase in the average balance of loans and advances to customers was primarily due to the continued expansion of our overall business. The increase in the average yield on loans and advances to customers was primarily attributable to the increased average yield on discounted bills which was partially offset by the decreased average yield on personal loans.

Interest income from corporate loans was the largest component of our interest income from loans and advances to customers, representing 71.8% and 71.0% of our total interest income from loans and advances to customers for 2017 and 2018, respectively.

Corporate Loans

Our interest income from corporate loans increased by 23.5% from RMB3,207.7 million in 2017 to RMB3,963.0 million in 2018, primarily, because the average balance of our corporate loans increased by 24.4% from RMB58,967.8 million in 2017 to RMB73,359.0 million in 2018. The increase in the average balance of our corporate loans was primarily attributable to business expansion, particularly the increase of our loans to borrowers engaging in the mining industry and the real estate industry. The average yield on our corporate loans remained relatively stable in 2017 and 2018, which was 5.44% and 5.40%, respectively.

The following table sets forth the distribution of our interest income from corporate loans by industry classification for the years indicated.

	For the year ended December 31,			
	2017		2018	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Manufacturing	1,117.9	34.9%	1,262.1	31.9%
Mining	712.1	22.2%	818.0	20.7%
Real estate	284.9	8.9%	694.9	17.5%
Wholesale and retail	431.7	13.5%	390.5	9.9%
Leasing and business services	170.9	5.3%	225.8	5.7%
Public administration, social security and social organization	151.6	4.7%	172.0	4.3%
Construction	129.1	4.0%	149.3	3.8%
Transportation, warehousing and postal services	73.9	2.3%	98.2	2.5%
Electricity, gas and water production and supply	61.7	1.9%	85.5	2.2%
Agriculture, forestry, animal husbandry and fishery	15.6	0.5%	8.4	0.2%
Education	10.2	0.3%	5.4	0.1%
Others(1)	48.1	1.5%	52.9	1.2%
Total interest income from corporate loans	3,207.7	100.0%	3,963.0	100.0%

Note:

(1) Consist primarily of (i) information transmission, software and information technology services, (ii) health, social security and social welfare, (iii) resident services, maintenance and other services, (iv) culture, sports and entertainment, and (v) scientific research and technical services.

Personal Loans

Our interest income from personal loans increased by 48.3% from RMB491.1 million in 2017 to RMB728.3 million in 2018, primarily because the average balance of personal loans increased by 66.5% from RMB8,700.2 million in 2017 to RMB14,488.3 million in 2018, which was partially offset by a decrease in the average yield on personal loans from 5.64% in 2017 to 5.03% in 2018. The increase in the average balance of our personal loans was primarily attributable to the increase in the average balance of our residential mortgage loans in 2018, which was further caused by the growing market demand driven by Shanxi's urbanization and economic transformation. The decrease in the average yield on our personal loans was primarily because our residential mortgage loans increased as a percentage to our total personal loans, which generally have a lower interest rates compared to other personal loans products.

Discounted Bills

Our interest income from discounted bills increased by 15.3% from RMB770.8 million in 2017 to RMB888.4 million in 2018, primarily because the average yield on discounted bills increased from 4.34% in 2017 to 5.01% in 2018. The increase in the average yield on our discounted bills was mainly caused by (i) an increase in the bill market interest rates resulting from the increased market demand, and (ii) accelerated turnover of bill assets in 2018. The average balance of our discounted bills remained relatively stable, which amounted to RMB17,769.7 million and RMB17,731.0 million for 2017 and 2018, respectively.

Interest Income from Financial Investments

For the year ended December 31, 2017, our interest income from financial investments amounted to RMB3,171.4 million according to IAS 39. Assuming we still apply IAS 39 in 2018, our interest income from financial investments would amount to RMB2,725.8 million in 2018. Should we apply IAS 39 in 2018, our interest income from financial investments would experience a decrease from RMB3,171.4 million in 2017 to RMB2,725.8 million in 2018, primarily because of a decrease in the average yield on our financial investments from 4.75% to 4.41%; and (ii) a decrease in the average balance of the financial investments from RMB66,696.3 million to RMB61,805.2 million. The decrease in the average yield and average balance of our financial investments is primarily due to our reduction of certain investments in trust plans and asset management plans which have relatively high yields in response to relevant government policies regulating such investments.

We have adopted IFRS 9 since January 1, 2018 to replace IAS 39. According to IFRS 9, our interest income from financial investments in 2018 amounted to RMB2,147.7 million, which was less than the result for the same year should we apply IAS 39, primarily because the interest income from financial investments measured at fair value through profit or loss under IAS 39 was recognized in the "net gains from investment securities" rather than "interest income" 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".

The following table sets forth a breakdown of our interest income from our debt securities investment, SPV investment and other investment as well as their respective average yields for the years indicated.

	For the year ended December 31,								
	2017[1]			2018[1]			2018[2]		
	Amount	% of total	Average yield[3]	Amount	% of total	Average yield[3]	Amount	% of total	Average yield[3]
	(unaudited) (in millions of RMB, except percentages)								
Debt securities investment	525.9	16.6%	3.43%	686.2	25.2%	3.51%	646.3	30.1%	3.44%
SPV investment	2,596.3	81.9%	5.26%	1,963.0	72.0%	4.84%	1,437.3	66.9%	4.54%
Others[4]	49.2	1.5%	4.69%	76.6	2.8%	4.49%	64.1	3.0%	4.45%
Total	**3,171.4**	**100.0%**	**4.75%**	**2,725.8**	**100.0%**	**4.41%**	**2,147.7**	**100.0%**	**4.14%**

Notes:

(1) Prepared according to IAS 39.

(2) Prepared according to IFRS 9.

(3) Calculated by dividing (i) our interest income from the corresponding assets in the year, by (ii) the average balance of these assets.

(4) Consist primarily of certificates of interbank deposit.

In 2017, the average yield on our debt securities investment and the average yield on our SPV investment amounted to 3.43% and 5.26%, respectively. Assuming we still apply IAS 39, in 2018, the average yield on debt securities investment and the average yield on SPV investment would be 3.51% and 4.84%, respectively. Should we still apply IAS 39, the average yield on our debt securities investment would increase slightly from 3.43% in 2017 to 3.51% in 2018, mainly due to our increased investment in debt securities which have comparatively high yields. Should we still apply IAS 39, the average yield on our SPV investment would decrease from 5.26% in 2017 to 4.84% in 2018, mainly due to (i) our increased investment in the products with relatively low risks and yields according to our liquidity risk and credit risk management policies; and (ii) the gradual maturity of some SPV investment with higher yields.

According to IFRS 9 which we adopted since January 1, 2018, the average yield on our debt securities and SPV investment in 2018 amounted to 3.44% and 4.54%, respectively. The aforementioned average yield under IFRS 9 differs from the result for same year should we apply IAS 39, mainly because the interest income from financial investments measured at fair value through profit or loss under IAS 39 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. 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".

Interest Income from Placements with Banks and Other Financial Institutions

Interest income from placements with banks and other financial institutions represented 0.1% and 0.3% of our interest income in 2017 and 2018, respectively.

Our interest income from placements with banks and other financial institutions increased significantly from RMB2.8 million in 2017 to RMB23.1 million in 2018, primarily due to an increase in the average balance of our placements with banks and other financial institutions from RMB84.2 million in 2017 to RMB852.8 million in 2018, which was partially offset by a decrease in the average yield on our placements with banks and other financial institutions from 3.33% in 2017 to 2.71% in 2018.

Interest Income from Financial Assets Held under Resale Agreements

Interest income from financial assets held under resale agreements represented 2.8% and 2.9% of our interest income in 2017 and 2018, respectively.

Our interest income from financial assets held under resale agreements increased by 5.5% from RMB228.9 million in 2017 to RMB241.5 million in 2018, primarily due to an increase in the average balance of our financial assets held under resale agreements from RMB5,590.4 million in 2017 to RMB5,982.6 million in 2018. The average balance of our financial assets held under resale agreements increased as we entered into more reverse repurchase transactions according to our needs for assets and liabilities management, which was also in line with our liquidity management strategy. The average yield on our financial assets held under resale agreements was remained relatively stable, which was 4.09% in 2017 and 4.04% in 2018.

Interest Income from Deposits with the Central Bank

Our deposits with the central bank consist primarily of statutory deposit reserves and surplus deposit reserves with the PBoC. Statutory deposit reserves represent the minimum level of cash deposits that we are required to maintain at the PBoC, calculated as a percentage of the balance of our overall deposits from customers. Surplus deposit reserves are deposits with the PBoC in excess of statutory deposit reserves, which we maintain for liquidity purposes.

Interest income from deposits with the central bank represented 3.6% and 3.9% of our interest income in 2017 and 2018, respectively. Interest income from deposits with the central bank increased by 7.8% from RMB299.0 million in 2017 to RMB322.2 million in 2018, primarily because the average balance of our deposits with the central bank increased from RMB19,880.6 million in 2017 to RMB21,426.1 million in 2018. The increase in average balance of our deposits with the central bank was mainly attributable to increased deposit reserves resulting from the continued growth in our deposits from customers. The average yield on deposits with the central bank remained stable at 1.50% in 2017 and 2018.

Interest Income from Deposits with Banks and Other Financial Institutions

Interest income from deposits with banks and other financial institutions represented 0.3% and 0.4% of our interest income in 2017 and 2018, respectively.

Our interest income from deposits with banks and other financial institutions increased by 10.8% from RMB27.8 million in 2017 to RMB30.8 million in 2018, primarily due to an increase in the average balance of our deposits with banks and other financial institutions from RMB967.5 million in 2017 to RMB1,180.6 million in 2018, which was partially offset by a decrease in the average yield on our deposits with banks and other financial institutions from 2.87% in 2017 to 2.61% in 2018. The increase in the average balance of our deposits with banks and other financial institutions was mainly due to the increased amount we deposited in other banks for settlement purpose. The decrease in the average yield on our deposits with banks and other financial institutions was primarily attributable to the increased proportion taken up by the deposits for settlement which generally had relatively lower interest yields.

Interest Expense

Our interest expense increased by 23.5% from RMB4,184.3 million in 2017 to RMB5,166.2 million in 2018, primarily because (i) the average balance of interest-bearing liabilities increased by 13.5% from RMB163,133.9 million in 2017 to RMB185,228.5 million in 2018, and (ii) the average cost on interest-bearing liabilities increased from 2.56% in 2017 to 2.79% in 2018. 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	2,542.1	60.7%	3,020.5	58.5%
Deposits from banks and other financial institutions	756.5	18.1%	337.3	6.5%
Placements from banks and other financial institutions	3.1	0.1%	2.1	0.0%
Financial assets sold under repurchase agreements	173.0	4.1%	127.2	2.5%
Debt securities issued	706.8	16.9%	1,674.1	32.4%
Borrowing from the central bank	2.8	0.1%	5.0	0.1%
Total interest expense	**4,184.3**	**100.0%**	**5,166.2**	**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 60.7% and 58.5% 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	47,908.0	1,151.7	2.40%	44,521.4	1,182.9	2.66%
Demand	36,176.2	247.8	0.68%	41,678.4	273.8	0.66%
Subtotal	**84,084.2**	**1,399.5**	**1.66%**	**86,199.8**	**1,456.7**	**1.69%**
Personal deposits						
Time	33,174.2	1,114.0	3.36%	43,382.9	1,531.0	3.53%
Demand	8,060.1	28.6	0.35%	9,210.1	32.8	0.36%
Subtotal	**41,234.3**	**1,142.6**	**2.77%**	**52,593.0**	**1,563.8**	**2.97%**
Total deposits from customers	**125,318.5**	**2,542.1**	**2.03%**	**138,792.8**	**3,020.5**	**2.18%**

Note:

(1) Calculated by dividing interest expense by average balance.

Our interest expense on deposits from customers increased by 18.8% from RMB2,542.1 million in 2017 to RMB3,020.5 million in 2018 primarily because (i) the average cost on deposits from customers increased from 2.03% in 2017 to 2.18% in 2018, and (ii) the average balance of deposits from customers increased by 10.8% from RMB125,318.5 million in 2017 to RMB138,792.8 million in 2018. The increase in the average cost on deposits from customers was mainly because our personal time deposit increased as a percentage of our total deposits from customers and the personal time deposit products generally have higher interest rates. The increase in the average balance of deposits from customers was primarily due to the stable growth of our corporate deposits and personal deposits resulting from our continued efforts to develop our deposit business.

Interest Expense on Deposits from Banks and Other Financial Institutions

Our interest expense on deposits from banks and other financial institutions accounted for 18.1% and 6.5% of our total interest expense in 2017 and 2018, respectively.

Our interest expense on deposits from banks and other financial institutions decreased by 55.4% from RMB756.5 million in 2017 to RMB337.3 million in 2018, primarily because the average balance of deposits from banks and other financial institutions decreased from RMB17,183.6 million in 2017 to RMB7,152.3 million in 2018, which was partially offset by the increase in the average cost on deposits from banks and other financial institutions from 4.40% in 2017 to 4.72% in 2018. The decrease in the average balance of deposits from banks and other financial institutions was primarily because of our adjustment to the mix of financing structure by increasing the funds we obtained from issuing debt securities and deposits from customers while reducing deposits from banks and other financial institutions, which was in line with our risk management policies and business strategy. The increase in the average cost on deposits from banks and other financial institutions was primarily attributable to our acceptance of certain long-term deposits from banks and other financial institutions with relatively higher costs in the fourth quarter of 2017 which resulted in the higher average cost in 2018.

Interest Expense on Financial Assets Sold under Repurchase Agreements

Our interest expense on financial assets sold under repurchase agreements accounted for 4.1% and 2.5% of our total interest expense in 2017 and 2018, respectively.

Our interest expense on financial assets sold under repurchase agreements decreased by 26.5% from RMB173.0 million in 2017 to RMB127.2 million in 2018, primarily because (i) the average cost on financial assets sold under repurchase agreements decreased from 3.56% in 2017 to 3.10% in 2018 the average balance of financial assets sold under repurchase agreements decreased from RMB4,857.1 million in 2017 to RMB4,105.6 million in 2018. The decrease in the average cost on financial assets sold under repurchase agreements was primarily because the market interest rate declined in the second half of 2018 as a result of the adequate market liquidity under the impact of PBoC's monetary policies, which further led to an overall decrease in our cost of obtaining financing from the market during this period. The decrease in the average balance of financial assets sold under repurchase agreements was primarily because we actively optimized our liability structure by increasing the funds from other channels including deposits from customers and issuance of debt securities, which was in line with our liquidity risk management policies.

Interest Expense on Debt Securities Issued

Interest expense on debt securities issued accounted for 16.9% and 32.4% of our 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 substantially from RMB706.8 million in 2017 to RMB1,674.1 million in 2018, primarily because (i) the average balance of debt securities issued increased significantly from RMB15,580.3 million in 2017 to RMB34,929.0 million in 2018, and (ii) the average cost on debt securities issued increased from 4.54% in 2017 to 4.79% in 2018. The increase in the average balance of debt securities issued was primarily attributable to the issuance of certificates of interbank deposit 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 was primarily because the prevailing interest rate in the market of certificates of interbank deposit continued to rise in 2017 and remained at a high level in the first half of 2018 due to the impact of macroeconomic policies and PBoC's monetary policies, which further led to an increase in the average cost on the certificates of interbank deposit issued by us during this period.

Interest Expense on Borrowing from the Central Bank

Our interest expense on borrowing from the central bank accounted for 0.1% and 0.1% of our interest expense in 2017 and 2018, respectively.

Our interest expense on borrowing from the central bank increased by 78.6% from RMB2.8 million in 2017 to RMB5.0 million in 2018, primarily due to an increase in average balance of borrowing from the central bank from RMB92.9 million in 2017 to RMB169.1 million in 2018, which was partially offset by a decrease in average cost of borrowing from the central bank from 3.01% in 2017 to 2.96% in 2018.

Interest Expense on Placements from Banks and Other Financial Institutions

Our interest expense on placements from banks and other financial institutions accounted for 0.1% and 0.0% of our total interest expense in 2017 and 2018, respectively.

Our interest expense on placements from banks and other financial institutions decreased by 32.3% from RMB3.1 million in 2017 to RMB2.1 million in 2018, primarily because (i) the average balance of placements from banks and other financial institutions decreased from RMB101.5 million in 2017 to RMB79.7 million in 2018, and (ii) the average cost on placements from banks and other financial institutions decreased from 3.05% in 2017 to 2.63% 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.

According to IAS 39, our net interest spread amounted to 2.03% in 2017. Assuming we still apply IAS 39 in 2018, our net interest spread in 2018 would be 1.74%. Should we still apply IAS 39, our net interest spread would decrease from 2.03% in 2017 to 1.74% in 2018. Should we still apply IAS 39, our interest margin would decrease from 2.25% in 2017 to 1.91% in 2018. These decreases were mainly due to (i) an increase of the average cost on interest-bearing liabilities from 2.56% to 2.79%, which was caused by the increased proportion of personal time deposits with relatively high interest rates, as well as the increased proportion and cost of certificates of interbank deposit issued by us that also had relatively high cost compared to other types of liabilities, and (ii) a decrease in the average yield on interest-earning assets from 4.59% to 4.53%, as we reduced investment in certain trust plans and asset management plans that had relatively high yields in accordance with relevant regulatory policies.

We have adopted IFRS 9 since January 1, 2018 to replace IAS 39. According to IFRS 9, our net interest spread and net interest margin in 2018 amounted to 1.68% and 1.70%, respectively. The aforementioned net interest spread and net interest margin differ from the result for the same year should we apply IAS 39, primarily because the interest income from financial investments measured at fair value through profit or loss under IAS 39 was recognized in the "net gains from investment securities" instead of "interest income" under IFRS 9, and such financial investments were no longer considered as interest-earning assets. 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".

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		
Wealth management business fees	144.8	126.8
Acceptance and guarantee fees	111.3	125.6
Agency service fees and others	79.9	152.3
Bank card service fees	12.5	39.0
Settlement and clearing fees	25.5	46.6
Subtotal	**374.0**	**490.3**
Fee and commission expenses		
Settlement and clearing fees	(26.0)	(29.4)
Other	(16.3)	(37.2)
Subtotal	**(42.3)**	**(66.6)**
Net fee and commission income	**331.7**	**423.7**

Our net fee and commission income increased by 27.7% from RMB331.7 million in 2017 to RMB423.7 million in 2018, primarily because of a 31.1% increase in fee and commission income from RMB374.0 million in 2017 to RMB490.3 million in 2018, which was partially offset by a 57.4% increase in fee and commission expenses from RMB42.3 million in 2017 to RMB66.6 million in 2018.

The increase in fee and commission income was mainly caused by (i) a 12.8% increase of the acceptance and guarantee service fees from RMB111.3 million in 2017 to RMB125.6 million in 2018 due to the increased volume of bank acceptance bills issued in 2018; (ii) a 90.6% increase of the agency service fees and others from RMB79.9 million in 2017 to RMB152.3 million in 2018 as a result of our efforts to expand agency services business such as agency sales of funds and agency sales of insurance products; and (iii) an significant increase of the bank card service fees from RMB12.5 million in 2017 to RMB39.0 million in 2018 resulting from the increased number of credit cards we issued. The increase in fee and commission expenses was mainly caused by the expansion of our fee and commission based services.

For details on the disaggregation of fee and commission income recognized for 2017 and 2018, please see Note 4 of the Accountants' Report in Appendix I.

Net Trading Gains/(Losses)

According to IAS 39, our net trading losses were RMB59.9 million in 2017, primarily reflecting a decrease in fair value of the debt securities and funds that we held due to the impact from market conditions.

Assuming we still apply IAS 39 in 2018, our net trading gains would be RMB53.2 million in 2018. Such net trading gains in 2018 under IAS 39 is mainly caused by (i) an increase in the fair value of certain debt securities and funds we invested in 2018, and (ii) our disposal of certain debt securities in 2018 under favorable market conditions.

We have adopted IFRS 9 to replace IAS 39 since January 1, 2018. According to IFRS 9, our net trading gains in 2018 amounted to RMB231.8 million, which was more than the result for the same year should we apply IAS 39, mainly because certain financial investment which originally was investments classified as receivables or available-for-sale financial assets under IAS 39 was reclassified to financial investments measured at fair value through profit or loss under IFRS 9. For details on 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".

Net Gains Arising from Investment Securities

Our net gains arising from investment securities in 2017 amounted to RMB91.3 million under IAS 39. Assuming we still apply IAS 39 in 2018, our net gains arising from investment securities would be RMB315.9 million in 2018. Should we still apply IAS 39, our net gains arising from investment securities would increase from RMB91.3 million in 2017 to RMB315.9 million in 2018, which was caused by (i) the increased scale of our investment in funds and the increased dividend income from investment in funds, and (ii) our grasp of good market timing for disposal of certain debt securities issued by policy banks to achieve decent returns.

We have adopted IFRS 9 to replace IAS 39 since January 1, 2018. Our net gains arising from investment securities in 2018 amounted to RMB887.4 million, which was much more than the result for the same year should we apply IAS 39, mainly because the interest income from financial investments measured at fair value through profit or loss under IAS 39 has been recognized in "net gains from investment securities" 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".

Other Components of Our Operating Income

Other components of our operating income consisted primarily of penalty income and government grants, and net gains from disposal of repossessed and self-used property and equipment. Other components of our operating income was RMB7.6 million and RMB31.1 million in 2017 and 2018, respectively, representing 0.2% and 0.7% of our operating income, respectively. For detailed breakdown and disaggregation of other components of our operating income, please see Note 7 of the Accountants' Report in Appendix I.

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	1,064.1	1,098.7
Rental and property management fees	156.1	206.3
Depreciation and amortization	143.9	129.4
Taxes and surcharges	49.2	51.9
Other general and administrative expenses[1]	267.0	264.5
Total operating expenses	**1,680.3**	**1,750.8**

Note:

(1) Consist primarily of business marketing expenses, electronic equipment operating costs, security expenses and insurance premiums.

Our operating expenses increased by 4.2% from RMB1,680.3 million in 2017 to RMB1,750.8 million in 2018, primarily due to the increased rental and property management fees and increased staff costs as a result of our business expansion.

Our cost-to-income ratio (excluding taxes and surcharges) was 37.19% and 35.75% in 2017 and 2018, respectively. This decrease in our cost-to-income ratio was primarily because the growth of our operating income outpaced the growth of our operating expenses (excluding taxes and surcharges), reflecting our effective cost control.

Staff Costs

Staff costs were the largest component of our operating expenses, representing 63.3% and 62.8% 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	723.7	734.0
Social insurance and annuity	196.8	214.8
Housing allowances	46.6	56.1
Staff welfare	46.6	45.6
Employee education expenses and labour union expenses	30.2	31.5
Supplementary retirement benefits	5.2	5.6
Others	15.0	11.1
Total staff costs	**1,064.1**	**1,098.7**

Our staff costs increased by 3.3% from RMB1,064.1 million in 2017 to RMB1,098.7 million in 2018, primarily due to the increased salaries, bonuses and allowances as well as the increased social insurance and annuity, which were mainly caused by the increased number of our employees as a result of our business expansion.

The salaries, bonuses and allowances was the largest component of our staff costs, representing 68.0% and 66.8% of our total staff costs in 2017 and 2018, respectively. Salaries, bonuses and allowances increased by 1.4% from RMB723.7 million in 2017 to RMB734.0 million in 2018, primarily because we recruited more employees in line with our business expansion.

Rental and Property Management Fees

Our rental and property management fees increased by 32.2% from RMB156.1 million in 2017 to RMB206.3 million in 2018, primarily attributable to (i) the office building we newly rented, and (ii) the increased rent for certain outlets and office buildings upon renewal of lease in 2018.

Depreciation and Amortization

Our depreciation and amortization consists primarily of depreciation of our property and equipment and amortization of renovation expenses and software development expenses. Our depreciation and amortization decreased by 10.1% from RMB143.9 million in 2017 to RMB129.4 million in 2018, primarily reflecting that certain electronic equipment and IT facilities purchased by us in earlier years were fully depreciated in 2018.

Taxes and Surcharges

Our taxes and surcharges increased by 5.5% from RMB49.2 million in 2017 to RMB51.9 million in 2018, primarily driven by the development and expansion of our business.

Other General and Administrative Expenses

Our other general and administrative expenses primarily consist of business marketing expenses, electronic equipment operating costs, security expenses and insurance premiums. Other general and administrative expenses decreased by 0.9% from RMB267.0 million in 2017 to RMB264.5 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[1]	2018[1]	2018[2]
		(unaudited)	
		(in millions of RMB)	
Impairment losses/(reversals) on assets:			
Financial investments	448.1	(85.7)	(274.3)
Loans and advances to customers	908.0	1,393.5	1,784.9
Financial assets held under resale agreements	(143.7)	–	–
Credit commitments	–	–	12.1
Others	(8.9)	43.6	12.8
Total	**1,203.5**	**1,351.4**	**1,535.5**

Notes:

(1) prepared according to IAS 39.

(2) prepared according to IFRS 9.

In 2017, we recorded impairment losses on assets of RMB1,203.5 million according to IAS 39. Assuming we still apply IAS 39, our impairment losses on assets in 2018 would be RMB1,351.4 million. We have adopted IFRS 9 to replace IAS 39 since January 1, 2018, according to which, our impairment losses on assets amounted to RMB1,535.5 million in 2018.

Assuming we still apply IAS 39 in 2018, our impairment losses would increase from RMB1,203.5 million in 2017 to RMB1,351.4 million in 2018, mainly because of (i) the increased loans and advances to customers as a result of our business growth, and (ii) the increased NPLs as certain corporate borrowers in the manufacturing and wholesale and retail industries experienced operational difficulties. Under IFRS 9 which we adopted commencing from January 1, 2018, our impairment losses in 2018 amounted to RMB1,535.5 million, which was more than the result should we apply IAS 39, mainly reflecting the impact of the "expected credit loss" model under 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".

Our impairment losses on financial investments amounted to RMB448.1 million in 2017. We recognized impairment reversals on financial investments of RMB274.3 million in 2018, primarily because of (i) the impacts from changes of accounting policies in 2018, and (ii) the decreased SPV investment in 2018 resulting in a decrease in impairment losses on financial investments.

Our impairment losses on loans and advances to customers increased by 96.6% from RMB908.0 million in 2017 to RMB1,784.9 million in 2018, primarily because (i) the impacts from changes of accounting policies in 2018, and (ii) the increase in our loans and advances to customers and NPLs.

Our impairment losses on credit commitments increased from nil in 2017 to RMB12.1 million in 2018, primarily due to the adoption of a different impairment model under IFRS 9. For details on the new impairment model, please see the subsection headed "– Critical Accounting Judgments and Key Sources of Estimation Uncertainty – Impact of New Accounting Policies".

Shares of Profits of Associates

Our shares of profits of associates increased from RMB18.1 million in 2017 to RMB33.2 million in 2018, primarily reflecting the growth of our associate's operating results in 2018. Our interest in associates refers to our investments in Jinshang Consumer Finance. For details please see "Business – Distribution Network – Consumer Finance Company".

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[(2)]	2018[(2)]	2018[(3)]
	(unaudited) (in millions of RMB)		
Profit before tax	1,520.2	1,511.8	1,499.7
Income tax calculated at applicable statutory tax rate of 25%	380.0	377.9	374.9
Non-deductible expenses	11.5	11.6	11.6
Non-taxable income[(1)]	(101.8)	(200.4)	(200.4)
Income tax	**289.7**	**189.1**	**186.1**

Notes:

(1) Non-taxable income mainly represents interest income from PRC government bonds, which is non-taxable in accordance with PRC tax regulations.

(2) prepared according to IAS 39.

(3) prepared according to IFRS 9.

In 2017, we incurred income tax of RMB289.7 million under IAS 39 and our effective income tax rate was 19.1% for the same year. Assuming we still apply IAS 39 in 2018, our income tax in 2018 would be RMB189.1 million. We have adopted IFRS 9 to replace IAS 39 since January 1, 2018, based on which, our income tax in 2018 amounted to RMB186.1 million, resulting in an effective income tax rate of 12.4%.

Assuming we still apply IAS 39 in 2018, our income tax would experience a decrease from RMB289.7 million in 2017 to RMB189.1 million in 2018, which is mainly attributable to an increase in our non-taxable income, as a result of our increased investment in debt securities issued by PRC Government and funds that is tax free according to relevant PRC laws and regulations. Please also see "Risk Factors – Risks Relating to Our Business – We cannot assure you that we will continue to enjoy a lower effective tax rate." Under IFRS 9 which we have adopted since January 1, 2018, our income tax in 2018 amounted to RMB186.1 million, which was less than the amount for the same year when applying IAS 39. 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".

The following table sets forth the components of our income tax expenses for the years indicated.

	For the year ended December 31,		
	2017[1]	2018[1]	2018[2]
	(unaudited)		
	(in millions of RMB)		
Current income tax – PRC enterprise income tax	603.1	249.5	249.5
Deferred income tax	(313.4)	(60.4)	(63.4)
Total income tax	**289.7**	**189.1**	**186.1**

Notes:

(1) prepared according to IAS 39.

(2) prepared according to IFRS 9.

Net Profit

Primarily as a result of all the foregoing factors, our net profit increased by 6.8% from RMB1,230.5 million in 2017 to RMB1,313.6 million in 2018.

Other Comprehensive Income/(Loss)

Changes in Fair Value of Available-for-sale Financial Assets

Most of our available-for-sale financial assets are available-for-sale debt securities and funds measured at fair value. We recorded a fair value loss of RMB84.4 million in fair value of available-for-sale financial assets in 2017 according to IAS 39. The fair value loss mentioned above was primarily due to the decrease in the fair value of debt securities and funds as of December 31, 2017, which was a result of the growing interest rates in the bond market and fund market.

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, certificates of interbank deposit, SPV investment 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 fair value gain of RMB53.6 million in fair value of financial assets measured at fair value through other comprehensive income in 2018. We incurred impairment losses of RMB21.3 million on such financial assets in 2018 in accordance with the expected credit loss model under IFRS 9.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2017

Our net profit increased by 19.2% from RMB1,031.9 million for the year ended December 31, 2016 to RMB1,230.5 million for the year ended December 31, 2017, primarily due to increase in our net interest income for the same periods, in line with the expansion of our operational scale.

Net Interest Income

During the Track Record Period, net interest income was the largest component of our operating income, representing 89.0% and 91.5% of our operating income for the years ended December 31, 2016 and 2017, 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,	
	2016	**2017**
	(in millions of RMB)	
Interest income	7,663.0	8,199.5
Interest expense	(4,147.9)	(4,184.3)
Net interest income	**3,515.1**	**4,015.2**

Our net interest income increased by 14.2% from RMB3,515.1 million in 2016 to RMB4,015.2 million in 2017, mainly due to a 7.0% increase in the interest income, which was partially offset by a 0.9% increase in the 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 yields on assets or related average cost on liabilities for the years indicated.

	For the year ended December 31,					
	2016			2017		
	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	68,198.7	3,601.6	5.28%	85,437.7	4,469.6	5.23%
Financial investments(2)	73,267.5	3,553.3	4.85%	66,696.3	3,171.4	4.75%
Placements with banks and other financial institutions	157.9	5.5	3.48%	84.2	2.8	3.33%
Financial assets held under resale agreements	5,634.7	180.6	3.21%	5,590.4	228.9	4.09%
Deposits with the central bank(3)	20,458.9	306.0	1.50%	19,880.6	299.0	1.50%
Deposits with banks and other financial institutions	750.5	16.0	2.13%	967.5	27.8	2.87%
Total interest-earning assets	**168,468.2**	**7,663.0**	**4.55%**	**178,656.7**	**8,199.5**	**4.59%**
Interest-bearing liabilities						
Deposits from customers	112,998.7	2,557.5	2.26%	125,318.5	2,542.1	2.03%
Deposits from banks and other financial institutions	27,714.6	1,227.4	4.43%	17,183.6	756.5	4.40%
Placements from banks and other financial institutions	288.4	7.6	2.64%	101.5	3.1	3.05%
Financial assets sold under repurchase agreements	5,226.1	133.3	2.55%	4,857.1	173.0	3.56%
Debt securities issued(4)	5,347.3	220.8	4.13%	15,580.3	706.8	4.54%
Borrowing from the central bank	37.8	1.3	3.44%	92.9	2.8	3.01%
Total interest-bearing liabilities	**151,612.9**	**4,147.9**	**2.74%**	**163,133.9**	**4,184.3**	**2.56%**
Net interest income		**3,515.1**			**4,015.2**	
Net interest spread(5)			**1.81%**			**2.03%**
Net interest margin(6)			**2.09%**			**2.25%**

Notes:

(1) Calculated by dividing interest income/expense by average balance.

(2) Consists of financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investments classified as receivables.

(3) Consists primarily of statutory deposit reserves and surplus deposit reserves.

(4) Consists of certificates of interbank deposit and tier-two capital bonds 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.

	2017 vs. 2016		
	Increase/(decrease) due to		Net increase/ (decrease)[3]
	Volume[1]	Rate[2]	
Assets			
Loans and advances to customers	910.4	(42.4)	868.0
Financial investments	(318.7)	(63.2)	(381.9)
Financial assets held under resale agreements	(1.4)	49.7	48.3
Deposits with the central bank[4]	(8.6)	1.6	(7.0)
Deposits with banks and other financial institutions	4.6	7.2	11.8
Placements with banks and other financial institutions	(2.6)	(0.1)	(2.7)
Changes in interest income	**583.7**	**(47.2)**	**536.5**
Liabilities			
Deposits from customers	278.8	(294.2)	(15.4)
Deposits from banks and other financial institutions	(466.4)	(4.5)	(470.9)
Placements from banks and other financial institutions	(4.9)	0.4	(4.5)
Financial assets sold under repurchase agreements	(9.4)	49.1	39.7
Debt securities issued[5]	422.5	63.5	486.0
Borrowing from the central bank	1.9	(0.4)	1.5
Changes in interest expense	**222.5**	**(186.1)**	**36.4**
Changes in net interest income	**361.2**	**138.9**	**500.1**

Notes:

(1) Represents the average balance for the year minus the average daily 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 and surplus deposit reserves.

(5) Consists of certificates of interbank deposit and tier-two capital bonds issued by us.

Interest Income

Our interest income increased by 7.0% from RMB7,663.0 million in 2016 to RMB8,199.5 million in 2017 primarily due to a 6.0% increase in the average balance of interest-earning assets from RMB168,468.2 million in 2016 to RMB178,656.7 million in 2017, and an increase in the average yield on interest-earning assets from 4.55% in 2016 to 4.59% in 2017. The increase in the average balance of interest-earning assets was primarily attributable to a significant increase in loans and advances to customers, 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 yields on financial assets held under resale agreements.

The following table sets forth a breakdown of our interest income for the years indicated.

	For the year ended December 31,			
	2016		2017	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Interest income from				
Loans and advances to customers				
Corporate Loans	2,632.7	34.3%	3,207.7	39.1%
Personal loans	351.7	4.6%	491.1	6.0%
Discounted bills	617.2	8.1%	770.8	9.4%
Subtotal	**3,601.6**	**47.0%**	**4,469.6**	**54.5%**
Financial investments	3,553.3	46.3%	3,171.4	38.7%
Placements with banks and other financial institutions	5.5	0.1%	2.8	0.1%
Financial assets held under resale agreements	180.6	2.4%	228.9	2.8%
Deposits with the central bank	306.0	4.0%	299.0	3.6%
Deposits with banks and other financial institutions	16.0	0.2%	27.8	0.3%
Total interest income	**7,663.0**	**100.0%**	**8,199.5**	**100.0%**

Interest Income from Loans and Advances to Customers

Our interest income from loans and advances to customers represented 47.0% and 54.5% of our interest income in 2016 and 2017, 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,					
	2016			2017		
	Average balance	Interest income	Average yield[(1)]	Average balance	Interest income	Average yield[(1)]
	(in millions of RMB, except percentages)					
Corporate loans	44,296.8	2,632.7	5.94%	58,967.8	3,207.7	5.44%
Personal loans	5,270.2	351.7	6.67%	8,700.2	491.1	5.64%
Discounted bills	18,631.7	617.2	3.31%	17,769.7	770.8	4.34%
Total loans and advances to customers	**68,198.7**	**3,601.6**	**5.28%**	**85,437.7**	**4,469.6**	**5.23%**

Note:

(1) Calculated by dividing interest income by average balance.

Our interest income from loans and advances to customers increased by 24.1% from RMB3,601.6 million in 2016 to RMB4,469.6 million in 2017, primarily due to a 25.3% increase in the average balance of total loans and advances to customers from RMB68,198.7 million in 2016 to RMB85,437.7 million in 2017, which was offset by a decrease in the average yield on total loans and advances to customers from 5.28% in 2016 to 5.23% in 2017.

During the Track Record Period, interest income from corporate loans was the largest component of our interest income from loans and advances to customers, representing 73.1% and 71.8% of our total interest income from loans and advances to customers for 2016 and 2017, respectively.

Corporate Loans

Our interest income from corporate loans increased by 21.8% from RMB2,632.7 million in 2016 to RMB3,207.7 million in 2017, primarily due to a 33.1% increase in average balance of our corporate loans from RMB44,296.8 million in 2016 to RMB58,967.8 million in 2017, which was partially offset by a decrease in the average yield on our corporate loans from 5.94% in 2016 to 5.44% in 2017. The increase in the average balance of corporate loans was primarily attributable to our business expansion, particularly the increase of our loans to borrowers engaging in manufacturing, mining and real estate industries. The decrease in the average yield on our corporate loans was primarily because we adjusted our loan portfolio structure and granted more loans with relatively low yields to quality medium to large enterprises.

The following table sets forth the distribution of our interest income from corporate loans by industry classification for the years indicated.

	For the year ended December 31,			
	2016		2017	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Manufacturing	1,135.7	43.1%	1,117.9	34.9%
Mining	714.7	27.1%	712.1	22.2%
Real estate	120.6	4.6%	284.9	8.9%
Wholesale and retail	347.5	13.2%	431.7	13.5%
Leasing and business services	51.8	2.0%	170.9	5.3%
Public administration, social security and social organization	53.8	2.1%	151.6	4.7%
Construction	103.0	3.9%	129.1	4.0%
Transportation, warehousing and postal services	21.6	0.8%	73.9	2.3%
Electricity, gas and water production and supply	38.4	1.5%	61.7	1.9%
Agriculture, forestry, animal husbandry and fishery	12.3	0.5%	15.6	0.5%
Education	16.6	0.6%	10.2	0.3%
Others[1]	16.7	0.6%	48.1	1.5%
Total interest income from corporate loans	2,632.7	100.0%	3,207.7	100.0%

Note:

(1) Consist primarily of (i) information transmission, software and information technology services, (ii) health, social security and social welfare, (iii) resident services, maintenance and other services, (iv) culture, sports and entertainment, (v) scientific research and technical services, and (vi) accommodation and catering.

Personal Loans

Our interest income from personal loans increased by 39.6% from RMB351.7 million in 2016 to RMB491.1 million in 2017 primarily due to a 65.1% increase in the average balance of our personal loans from RMB5,270.2 million in 2016 to RMB8,700.2 million in 2017, which was partially offset by a decrease in the average yield on our personal loans from 6.67% in 2016 to 5.64% in 2017. The increase in the average balance of our personal loans was attributable to the increase in our residential mortgage loans in 2017, which we consider have comparatively lower risks as such loans are generally secured by residential properties. The decrease in the average yield on personal loans was primarily because our residential mortgage loans increased as a percentage to our total personal loans, which generally have lower interest rates compared to other personal loans products.

Discounted Bills

Our interest income from discounted bills increased by 24.9% from RMB617.2 million in 2016 to RMB770.8 million in 2017 primarily due to an increase in the average yield on our discounted bills from 3.31% in 2016 to 4.34% in 2017, which was partially offset by a slight decrease of 4.6% in the average balance of our discounted bills from RMB18,631.7 million in 2016 to RMB17,769.7 million in 2017. The increase in the average yield on our discounted bills was mainly caused by an increase in prevailing market interest rates as a result of tightened market liquidity in 2017, and to a smaller extent, also due to the decreased holding period of discounted bills in 2017. The decrease in the average balance of our discounted bills was primarily due to gradual maturity of certain existing discounted bills in 2017 and our allocation of more resources to the traditional loan business after considering various factors including the regulatory policies and our needs for business development.

Interest Income from Financial Investments

For the years ended December 31, 2016 and 2017, our interest income generated from our financial investments amounted to RMB3,553.3 million and RMB3,171.4 million, respectively, accounting for 46.3%, and 38.7% of our total interest income.

Our interest income from financial investments decreased by 10.7% from RMB3,553.3 million in 2016 to RMB3,171.4 million in 2017 primarily due to (i) a decrease in the average balance of our financial investments from RMB73,267.5 million in 2016 to RMB66,696.3 million in 2017; and (ii) a decrease in the average yield on our financial investments from 4.85% in 2016 to 4.75% in 2017. The decrease in the average balance of our financial investments was primarily because we controlled and reduced certain SPV investment in response to the new regulatory policies issued by PRC Government in recent years. The slight decrease in the average yield on our financial investments was primarily due to the decreased average yield on our investment in debt securities. The following table sets forth a breakdown of our interest income from our debt securities investment and SPV investment and their respective average yields for the years indicated.

	For the years ended December 31,					
	2016			2017		
	Amount	% of total	Average yield[1]	Amount	% of total	Average yield[1]
	(in millions of RMB, except percentages)					
Debt securities investment	641.3	18.0%	3.85%	525.9	16.6%	3.43%
SPV investment	2,894.4	81.5%	5.16%	2,596.3	81.9%	5.26%
Others[2]	17.6	0.5%	3.23%	49.2	1.5%	4.69%
Total	**3,553.3**	**100.0%**	**4.85%**	**3,171.4**	**100.0%**	**4.75%**

Notes:

(1) Calculated by dividing (i) our interest income from the corresponding assets, by (ii) the average balance of these assets.

(2) Consist of certificates of interbank deposit.

In 2016 and 2017, our interest income from SPV investment represented 81.5% and 81.9%, respectively, of our total income from our investment business. The average yield on our debt securities investment decreased from 3.85% in 2016 to 3.43% in 2017, mainly due to our increased investment in debt securities issued by PRC Government with comparatively low risks and low yields. The average yield on our SPV investment remained relatively stable, which was 5.16% and 5.26% in 2016 and 2017, respectively.

Interest Income from Financial Assets Held under Resale Agreements

Interest income from financial assets held under resale agreements represented 2.4% and 2.8% of our interest income in 2016 and 2017, respectively.

Our interest income from financial assets held under resale agreements increased by 26.7% from RMB180.6 million in 2016 to RMB228.9 million in 2017 primarily due to an increase in the average yield on our financial assets held under resale agreements from 3.21% in 2016 to 4.09% in 2017. The increase in the average yield on financial assets held under resale agreements was primarily attributable to the higher market interest rates in 2017 reflecting tightened market liquidity due to adjustment of monetary policies, which in turn resulted in an increase in returns from reverse repurchase transactions. The average balance of our financial assets held under resale agreements remained relatively stable, which amounted to RMB5,634.7 million and RMB5,590.4 million in 2016 and 2017, respectively.

Interest Income from Deposits with the Central Bank

Our deposits with the central bank consist primarily of statutory deposit reserves and surplus deposit reserves with the PBoC. Statutory deposit reserves represent the minimum level of cash deposits that we are required to maintain at the PBoC, calculated as a percentage of the balance of our overall deposits from customers. Surplus deposit reserves are deposits with the PBoC in excess of statutory deposit reserves, which we maintain for clearing purposes.

Interest income from deposits with the central bank represented 4.0% and 3.6% of our interest income in 2016 and 2017, respectively.

Interest income from deposits with the central bank decreased slightly by 2.3% from RMB306.0 million in 2016 to RMB299.0 million in 2017, primarily because of a 2.8% decrease in the average balance of our deposits with the central bank from RMB20,458.9 million in 2016 to RMB19,880.6 million in 2017. The decrease in average balance of our deposits with the central bank was mainly attributable to the decreased statutory deposit reserves resulting from a decrease in the PBoC statutory deposit reserve ratio in 2017. The average yield on deposits with the central bank remained stable at 1.50% in 2016 and 2017.

Interest Income from Deposits with Banks and Other Financial Institutions

Interest income from deposits with banks and other financial institutions represented 0.2% and 0.3% of our interest income in 2016 and 2017, respectively.

Our interest income from deposits with banks and other financial institutions increased by 73.8% from RMB16.0 million in 2016 to RMB27.8 million in 2017 primarily due to (i) an increase in the average yield on our deposits with bank and other financial institutions from 2.13% in 2016 to 2.87% in 2017, and (ii) an increase in the average balance of our deposits with banks and other financial institutions from RMB750.5 million in 2016 to RMB967.5 million in 2017. The increase in the average yield on deposits with banks and other financial institutions was primarily attributable to (i) an increase in the market interest rates as a result of the rising SHIBOR rates in 2017, and (ii) the increased proportion taken up by fixed-term deposits with banks and other financial institutions which had relatively higher interest rates.

Interest Income from Placements with Banks and Other Financial Institutions

Interest income from placements with banks and other financial institutions represented 0.1% and 0.1% of our interest income for years ended December 31, 2016 and 2017, respectively.

Our interest income from placements with banks and other financial institutions decreased by 49.1% from RMB5.5 million for the year ended December 31, 2016 to RMB2.8 million for the year ended December 31, 2017, primarily due to (i) a decrease in the average balance of our placements with banks and other financial institutions from RMB157.9 million for the year ended December 31, 2016 to RMB84.2 million for the year ended December 31, 2017, and (ii) a decrease in the average yield on our placements with banks and other financial institutions from 3.48% for the year ended December 31, 2016 to 3.33% for the year ended December 31, 2017.

Interest Expense

The following table sets forth a breakdown of our interest expense for the years indicated.

	For the year ended December 31,			
	2016		2017	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Interest expense on				
Deposits from customers	2,557.5	61.6%	2,542.1	60.7%
Deposits from banks and other financial institutions	1,227.4	29.6%	756.5	18.1%
Placements from banks and other financial institutions	7.6	0.2%	3.1	0.1%
Financial assets sold under repurchase agreements	133.3	3.2%	173.0	4.1%
Debt securities issued	220.8	5.3%	706.8	16.9%
Borrowing from the central bank	1.3	0.1%	2.8	0.1%
Total interest expense	**4,147.9**	**100.0%**	**4,184.3**	**100.0%**

Our interest expense increased slightly by 0.9% from RMB4,147.9 million in 2016 to RMB4,184.3 million in 2017 primarily due to a 7.6% increase in the average balance of interest-bearing liabilities from RMB151,612.9 million in 2016 to RMB163,133.9 million in 2017, which was partially offset by a decrease in the average cost on interest-bearing liabilities from 2.74% in 2016 to 2.56% in 2017. The increase in the average balance of interest-bearing liabilities was primarily attributable to the increases in the average balance of deposits from customers and debt securities issued which were in line with our overall business growth. The decrease in the average cost on interest-bearing liabilities was primarily because of the decreased average cost on deposits from customers.

Interest Expense on Deposits from Customers

During the Track Record Period, deposits from customers were our primary source of funding. Our interest expense on deposits from customers accounted for 61.6% and 60.7% of our total interest expense for 2016 and 2017, 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,					
	2016			2017		
	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost
	(in millions of RMB, except percentages)					
Corporate deposits						
Time	51,840.8	1,530.7	2.95%	47,908.0	1,151.7	2.40%
Demand	27,934.4	155.2	0.56%	36,176.2	247.8	0.68%
Subtotal	**79,775.2**	**1,685.9**	**2.11%**	**84,084.2**	**1,399.5**	**1.66%**
Personal deposits						
Time	26,426.3	845.9	3.20%	33,174.2	1,114.0	3.36%
Demand	6,797.2	25.7	0.38%	8,060.1	28.6	0.35%
Subtotal	**33,223.5**	**871.6**	**2.62%**	**41,234.3**	**1,142.6**	**2.77%**
Total deposits from customers	**112,998.7**	**2,557.5**	**2.26%**	**125,318.5**	**2,542.1**	**2.03%**

Note:

(1) Calculated by dividing interest expense by average balance.

Our interest expense on deposits from customers decreased slightly by 0.6% from RMB2,557.5 million in 2016 to RMB2,542.1 million in 2017 primarily due to an decrease in our average cost on deposits from customers from 2.26% in 2016 to 2.03% in 2017, which was partially offset by a 10.9% increase in our average balance of deposits from customers from RMB112,998.7 million in 2016 to RMB125,318.5 million in 2017. The decrease in our average cost on deposits from customers was primarily because (i) the demand deposits increased as a percentage of our total deposits from customers while demand deposits have lower interest rates, and (ii) the average cost on corporate time deposits decreased in 2017 caused by the maturity of certain time deposits with relatively high interest rates. The increase in our average balance of deposits from customers was primarily due to our continued efforts to develop our deposit business.

Interest Expense on Deposits from Banks and other Financial Institutions

Our interest expense on deposits from banks and other financial institutions accounted for 29.6% and 18.1% of our interest expense in 2016 and 2017, respectively.

Our interest expense on deposits from banks and other financial institutions decreased by 38.4% from RMB1,227.4 million in 2016 to RMB756.5 million in 2017 primarily due to a 38.0% decrease in average balance of deposits from banks and other financial institutions from RMB27,714.6 million in 2016 to RMB17,183.6 million in 2017. The decrease in average balance of deposits from banks and other financial institutions was primarily reflecting our adjustment to the mix of financing structure by increasing the funds obtained from issuing debt securities and deposits from customers while reducing deposits from banks and other financial institutions, which was in line with our risk management policies and business strategy. The average cost on deposits from banks and other financial institutions remained relatively stable, which amounted to 4.43% and 4.40% in 2016 and 2017, respectively.

Interest Expense on Financial Assets Sold Under Repurchase Agreements

Our interest expense on financial assets sold under repurchase agreements accounted for 3.2% and 4.1% of our interest expense in 2016 and 2017, respectively.

Our interest expense on financial assets sold under repurchase agreements increased by 29.8% from RMB133.3 million in 2016 to RMB173.0 million in 2017 primarily due to an increase in average cost of financial assets sold under repurchase agreements from 2.55% in 2016 to 3.56% in 2017, which was partially offset by a 7.1% decrease in average balance of financial assets sold under repurchase agreements from RMB5,226.1 million in 2016 to RMB4,857.1 million in 2017. The increase in our average cost of financial assets sold under repurchase agreements was primarily due to the increase in market interest rates driven by tightened market liquidity in 2017, which in turn led to an increase in the cost of repurchase transactions. The decrease in average balance of financial assets sold under repurchase agreements was primarily attributable to the fact that we obtained comparatively sufficient funds from other channels including deposits from customers and issuance of debt securities.

Interest Expense on Debt Securities Issued

Interest expense on debt securities issued accounted for 5.3% and 16.9% of our interest expense in 2016 and 2017, respectively. Please see the subsection headed "– Capital Resources – Debt – Debt Securities Issued".

Our interest expense on debt securities issued increased significantly from RMB220.8 million in 2016 to RMB706.8 million in 2017 primarily due to (i) a significant increase in average balance of debt securities issued from RMB5,347.3 million in 2016 to RMB15,580.3 million in 2017, and (ii) an increase in average cost on debt securities issued from 4.13% in 2016 to 4.54% in 2017. The increase in the average balance of debt securities issued was primarily caused by issuance of certain certificates of interbank deposit in 2017 to meet our financing needs for business operations. The increase in our average cost on debt securities issued primarily reflects the relatively higher market interest rates of certificates of interbank deposit as a result of tightened market liquidity in 2017.

Interest Expense on Borrowing from the Central Bank

Our interest expense on borrowing from the central bank accounted for 0.1% and 0.1% of our interest expense in 2016 and 2017, respectively.

Our interest expense on borrowing from the central bank increased by 115.4% from RMB1.3 million in 2016 to RMB2.8 million in 2017, primarily due to an increase in the average balance of borrowing from the central bank from RMB37.8 million in 2016 to RMB92.9 million in 2017, which was partially offset by a decrease in the average cost on borrowing from the central bank from 3.44% in 2016 to 3.01% in 2017.

Interest Expense on Placements from Banks and Other Financial Institutions

Our interest expense on placements from banks and other financial institutions accounted for 0.2% and 0.1% of our interest expense in 2016 and 2017, respectively.

Our interest expense on placements from banks and other financial institutions decreased by 59.2% from RMB7.6 million in 2016 to RMB3.1 million in 2017 primarily due to a significant decrease in average balance of placements from banks and other financial institutions from RMB288.4 million in 2016 to RMB101.5 million in 2017, which was partially offset by an increase in the average cost on placements from banks and other financial institutions from 2.64% in 2016 to 3.05% in 2017.

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 1.81% in 2016 to 2.03% in 2017 and our net interest margin increased from 2.09% in 2016 to 2.25% in 2017, primarily because our average yield on interest-earning assets increased from 4.55% in 2016 to 4.59% in 2017 while our average costs on interest-bearing liabilities decreased from 2.74% in 2016 to 2.56% in 2017. The increase in our average yield on interest-earning assets primarily resulted from the growth of the average yield on financial assets held under resale agreement in 2017, which was further caused by the higher market interest rates due to the impact of tightened market liquidity in 2017. Our average cost on interest-bearing liabilities decreased in 2017, primarily because (i) the proportion of demand deposits increased in line with our business growth, and (ii) certain corporate time deposits with relatively high cost matured in 2017 which we did not continue to accept so as to optimize our deposit structure and control the costs.

Net Fee and Commission Income

For the year ended December 31, 2016 and 2017, our net fee and commission income was RMB402.9 million and RMB331.7 million, respectively, representing 10.2% and 7.6% of our total operating income in 2016 and 2017, respectively. The following table sets forth the principal components of our net fee and commission income for the years indicated.

	For the year ended December 31,	
	2016	**2017**
	(in millions of RMB)	
Fee and commission income		
Wealth management business fees	175.3	144.8
Acceptance and guarantee service fees	155.0	111.3
Agency service fees and others	88.2	79.9
Bank card service fees	8.9	12.5
Settlement and clearing fees	8.9	25.5
Subtotal	**436.3**	**374.0**
Fee and commission expenses		
Settlement and clearing fees	(22.2)	(26.0)
Other	(11.2)	(16.3)
Subtotal	**(33.4)**	**(42.3)**
Net fee and commission income	**402.9**	**331.7**

Our net fee and commission income decreased by 17.7% from RMB402.9 million in 2016 to RMB331.7 million in 2017 primarily due to (i) a 14.3% decrease in our fee and commission income from RMB436.3 million in 2016 to RMB374.0 million in 2017, and (ii) a 26.6% increase in fee and commission expenses from RMB33.4 million in 2016 to RMB42.3 million in 2017.

The decrease in our fee and commission income from 2016 to 2017 was mainly attributable to (i) a decrease in wealth management business fees from RMB175.3 million in 2016 to RMB144.8 million in 2017, which was caused by the decreased scale and yields of the assets that we were entrusted to manage due to the impacts of stricter regulatory policies and market conditions; and (ii) a decrease in acceptance and guarantee service fees from RMB155.0 million in 2016 to RMB111.3 million in 2017 which was caused by the decreased volume of bank acceptance bills issued in 2017. The increase in our fee and commission expenses from RMB33.4 million in 2016 to RMB42.3 million in 2017 was mainly caused by (i) an increase in our settlement and clearing fees and (ii) the bonds distribution fees and commission expenses arising from our newly added bonds distribution business in 2017.

For details on the disaggregation of fee and commission income recognized for 2016 and 2017, please see Note 4 of the Accountants' Report in Appendix I.

Net Trading Losses

Our net trading losses remained relatively stable, amounting to RMB60.5 million and RMB59.9 million, respectively in 2016 and 2017. We recorded net trading losses in 2016 and 2017, primarily attributable to the decreased fair value of the debt securities and funds held by us due to the impact from market conditions.

Net Gains Arising from Investment Securities

We realized net gains arising from investment securities of RMB82.2 million and RMB91.3 million in 2016 and 2017, respectively, primarily reflecting an increase in the dividend income from our investment in funds, as we allocated more resources to invest in funds in 2017 after taking into account various factors such as the liquidity and yields of assets.

Other Components of Our Operating Income

Other components of our operating income consisted primarily of penalty income, government grants, long-term unwithdrawn items income, rental income, and net gains on disposal of property and equipment. Other components of our operating income was RMB10.1 million and RMB7.6 million in 2016 and 2017, respectively, representing 0.3% and 0.2% of our operating income, respectively. For detailed breakdown and disaggregation of other components of our operating income, please see Note 7 of the Accountants' Report in Appendix I.

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,	
	2016	**2017**
	(in millions of RMB)	
Staff costs	994.6	1,064.1
Rental and property management expenses	158.1	156.1
Depreciation and amortization	147.3	143.9
Taxes and surcharges	155.7	49.2
Others general and administrative expenses[(1)]	251.7	267.0
Total operating expenses	**1,707.4**	**1,680.3**

Note:

(1) Consists primarily of business marketing expenses, electronic equipment operating costs, security expenses and insurance premiums.

Our operating expenses decreased by 1.6% from RMB1,707.4 million in 2016 to RMB1,680.3 million in 2017, primarily due to decreases in our taxes and surcharges.

Our cost-to-income ratio (excluding taxes and surcharges) was 39.29% and 37.19% in 2016 and 2017, respectively. The decreases in our cost-to-income ratio from 2016 to 2017 were primarily because the growth of our operating income outpaced the growth of our operating expenses (excluding taxes and surcharges), reflecting our effective cost control.

Staff Costs

During the Track Record Period, staff costs were the largest component of our operating expenses, representing 58.3% and 63.3% of our total operating expenses in 2016 and 2017, respectively.

The following table sets forth the components of our staff costs for the years indicated.

	For the year ended December 31,	
	2016	**2017**
	(in millions of RMB)	
Salaries, bonuses and allowances	667.4	723.7
Social insurance and annuity	171.0	196.8
Staff welfare	34.1	46.6
Housing allowances	43.8	46.6
Employee education expenses and labour union expenses	29.0	30.2
Supplementary retirement benefits	7.0	5.2
Others	42.3	15.0
Total staff costs	**994.6**	**1,064.1**

Our staff costs increased by 7.0% from RMB994.6 million in 2016 to RMB1,064.1 million in 2017. The continued increases in our staff costs were primarily due to increases in the salaries, bonuses and allowances as well as the social insurance and annuity, as we recruited more employees in line with the development of our business scale.

The salaries, bonuses and allowances was the largest component of our staff costs, representing 67.1% and 68.0% of our total staff costs in 2016 and 2017, respectively. Salaries increased by 8.4% from RMB667.4 million in 2016 to RMB723.7 million in 2017 primarily because we employed more employees in line with our business expansion.

Rental and Property Management Expenses

Our rental and property management expenses remained relatively stable in 2016 and 2017, which amounted to RMB158.1 million and RMB156.1 million, respectively.

Depreciation and Amortization

Our depreciation and amortization consists primarily of depreciation of our property and equipment and amortization of renovation expenses and software development expenses. Our depreciation and amortization remained relatively stable, which amounted to RMB147.3 million in 2016 and RMB143.9 million in 2017.

Taxes and Surcharges

Our taxes and surcharges decreased by 68.4% from RMB155.7 million in 2016 to RMB49.2 million in 2017, primarily due to the transition from business tax to value-added tax in May 2016.

On March 23, 2016, the MOF issued the *Notice on the Full Implementation of Pilot Program for Transition from Business Tax to Value-added Tax* (《關於全面推開營業税改徵增值税試點的通知》, Cai Shui [2016] No. 36). Pursuant to the Notice, since May 1, 2016, the transition from business tax to value-added tax applies to certain pilot industries, including financial industry. For banks, VAT is levied at the rate of 6%. 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".

Other General and Administrative Expenses

Our other general and administrative expenses primarily consist of business marketing expenses, electronic equipment operating costs, security expenses and insurance premiums. Other general and administrative expenses increased by 6.1% from RMB251.7 million in 2016 to RMB267.0 million in 2017, primarily due to an increase in business promotion expenses as we launched credit card business and offered new retail banking products and services in 2017.

Impairment Losses on Assets

The following table sets forth the principal components of our impairment losses/(reversals) on assets for the years indicated.

	For the year ended December 31,	
	2016	**2017**
	(in millions of RMB)	
Impairment losses/(reversals) on assets:		
Loans and advances to customers	883.2	908.0
Financial investments	15.0	448.1
Financial assets held under resale agreements	–	(143.7)
Others	6.9	(8.9)
Total	**905.1**	**1,203.5**

Impairment losses on assets increased by 33.0% from RMB905.1 million in 2016 to RMB1,203.5 million in 2017 primarily due to (i) a significant increase in impairment losses on financial investments from RMB15.0 million in 2016 to RMB448.1 million in 2017, and (ii) a 2.8% increase in impairment losses on loans and advances to customers from RMB883.2 million in 2016 to RMB908.0 million in 2017.

Impairment losses on loans and advances to customers increased by 2.8% from RMB883.2 million in 2016 to RMB908.0 million in 2017 primarily attributable to our increased loans and advances to customers. For details on changes in our allowance for impairment losses on loan losses, please see "Assets and Liabilities – Assets – Allowance for Impairment Losses on Loans to Customers".

Impairment losses on financial investments increased significantly from RMB15.0 million in 2016 to RMB448.1 million in 2017 primarily due to an increase in the financial investments classified as non-performing assets, which was caused by operational difficulties of certain underlying borrowers.

We recorded reversals of RMB143.7 million in 2017 for impairment losses on financial assets held under resale agreements primarily because the relevant overdue assets were fully recovered.

Shares of Profits of Associates

Ours shares of profits of associates increased from RMB0.4 million in 2016 to RMB18.1 million in 2017, primarily because of the rapid growth in business of our associate. Our interest in associates refers to our equity investments in Jinshang Consumer Finance. For details please see "Business – Distribution Network – Consumer Finance Company".

Income Tax

The following table sets forth the reconciliation between the income tax calculated at the statutory income tax rate applicable to our profit/(loss) before tax and our actual income tax for the years indicated.

	For the year ended December 31,	
	2016	**2017**
	(in millions of RMB)	
Profit before tax	1,337.7	1,520.2
Income tax calculated at applicable statutory tax rate of 25%	334.4	380.0
Non-deductible expenses	20.4	11.5
Non-taxable income[(1)]	(49.0)	(101.8)
Income tax	**305.8**	**289.7**

Note:

(1) Non-taxable income mainly represents interest income from PRC government bonds, which is non-taxable in accordance with PRC tax regulations.

Our income tax expenses decreased by 5.3% from RMB305.8 million in 2016 to RMB289.7 million in 2017 primarily due to an increase in our non-taxable income in 2017 due to our increased income from investment funds and debt securities issued by PRC Government in 2017 as compared with 2016. Please also see "Risk Factors – Risks Relating to Our Business – We cannot assure you that we will continue to enjoy a lower effective tax rate." Our effective income tax rate was 22.9% and 19.1% in 2016 and 2017, respectively.

The following table sets forth the components of our income tax expenses for the years indicated.

	For the year ended December 31,	
	2016	**2017**
	(in millions of RMB)	
Current income tax – PRC enterprise income tax	186.4	603.1
Deferred income tax	119.4	(313.4)
Total income tax	**305.8**	**289.7**

Net Profit

Primarily as a result of all the foregoing factors, our net profit increased by 19.2% from RMB1,031.9 million in 2016 to RMB1,230.5 million in 2017.

Other Comprehensive Income/(Loss)

Changes in Fair Value of Available-for-sale Financial Assets

Most of our available-for-sale financial assets in 2016 and 2017 are available-for-sale debt securities and funds measured at fair value. We recorded a fair value loss of RMB30.8 million and RMB84.4 million in fair value of available-for-sale financial assets for 2016 and 2017 according to IAS 39. The fair value loss mentioned above was primarily due to the decrease in the fair value of debt securities and funds.

SUMMARY OF SEGMENT OPERATING RESULTS

Summary Business Segment Information

We have three principal business segments: corporate banking, retail banking and financial markets. Please see "Business – Our Business Lines". The following table sets forth our operating results for each of our principal segments for the years indicated.

	For the year ended December 31,														
	2016					2017					2018				
	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]	1,577.9	(520.0)	2,457.2	–	3,515.1	2,558.4	(631.0)	2,087.8	–	4,015.2	3,054.4	(486.2)	610.6	–	3,178.8
Internal net interest (expense)/income[3]	921.0	1,029.7	(1,950.7)	–	–	498.0	1,140.2	(1,638.2)	–	–	155.6	1,415.1	(1,570.7)	–	–
Net interest income	2,498.9	509.7	506.5	–	3,515.1	3,056.4	509.2	449.6	–	4,015.2	3,210.0	928.9	(960.1)	–	3,178.8
Net fee and commission income	203.9	189.8	9.2	–	402.9	183.2	133.3	15.2	–	331.7	219.3	144.9	59.5	–	423.7
Net trading gains/(losses)	–	–	(60.5)	–	(60.5)	–	–	(59.9)	–	(59.9)	–	–	231.8	–	231.8
Net gains arising from investment securities	–	–	82.2	–	82.2	–	–	91.3	–	91.3	–	–	887.4	–	887.4
Other operating income[4]	6.0	–	4.1	0.0	10.1	3.3	1.5	–	2.8	7.6	27.8	–	–	3.3	31.1
Operating income[5]	**2,708.8**	**699.5**	**541.5**	**0.0**	**3,949.8**	**3,242.9**	**644.0**	**496.2**	**2.8**	**4,385.9**	**3,457.1**	**1,073.8**	**218.6**	**3.3**	**4,752.8**
Operating expenses	(872.4)	(714.2)	(118.9)	(1.9)	(1,707.4)	(855.8)	(698.9)	(122.4)	(3.2)	(1,680.3)	(838.8)	(805.4)	(98.4)	(8.2)	(1,750.8)
Impairment losses on assets	(878.9)	(11.1)	(15.1)	–	(905.1)	(735.7)	(163.5)	(304.3)	–	(1,203.5)	(1,779.3)	(30.5)	274.3	–	(1,535.5)
Share of profits of associates	–	–	–	0.4	0.4	–	–	–	18.1	18.1	–	–	–	33.2	33.2
Profit before tax	**957.5**	**(25.8)**	**407.5**	**(1.5)**	**1,337.7**	**1,651.4**	**(218.4)**	**69.5**	**17.7**	**1,520.2**	**839.0**	**237.9**	**394.5**	**28.3**	**1,499.7**

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 penalty income, government grants, and net gains from disposal of repossessed and self-used property and equipment.

(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 68.6%, 73.9% and 72.7% of our total operating income in 2016, 2017 and 2018, respectively. Operating income from our corporate banking business increased by 19.7% from RMB2,708.8 million in 2016 to RMB3,242.9 million in 2017, primarily due to the increased net interest income from corporate banking business mainly as a result of our increased corporate loans. Operating income from our corporate banking business increased by 6.6% from RMB3,242.9 million in 2017 to RMB3,457.1 million in 2018, primarily attributable to an increase in our net interest income, which was mainly caused by our efforts to develop our corporate loan business.

Operating income from our retail banking business represented 17.7%, 14.7% and 22.6% of our total operating income in 2016, 2017 and 2018, respectively. Operating income from our retail banking business decreased by 7.9% from RMB699.5 million in 2016 to RMB644.0 million in 2017 primarily due to a decrease in our net fee and commission income relating to retail banking business under the impact from stricter regulatory policies and market conditions. Operating income from our retail banking business increased by 66.7% from RMB644.0 million in 2017 to RMB1,073.8 million in 2018, primarily due to the increased net interest income driven by our continued efforts to develop personal deposit business and personal loan business since 2017, especially residential mortgage loans.

Operating income from our financial markets business represented 13.7%, 11.3% and 4.6% of our total operating income in 2016, 2017 and 2018, respectively. Operating income from our financial markets business decreased by 8.4% from RMB541.5 million in 2016 to RMB496.2 million in 2017 primarily due to the decreased investment in trust plans and asset management plans resulting from the impact of stricter regulatory policies. Operating income from our financial markets business decreased by 55.9% from RMB496.2 million in 2017 to RMB218.6 million in 2018, primarily attributable to (i) the increased scale of the certificates of interbank deposit issued by us driven by our needs for business expansion and the increased average cost on certificates of interbank deposit issued by us due the impact of market conditions, and (ii) our reduction of investment in certain trust plans and asset management plans according to relevant regulatory policies, and some trust plans and asset management plans matured in 2018.

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 branches or subsidiary 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,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Taiyuan	4,294.3	108.7%	4,047.4	92.3%	3,935.8	82.8%
Outside Taiyuan	(344.5)	(8.7)%	338.5	7.7%	817.0	17.2%
Total	**3,949.8**	**100.0%**	**4,385.9**	**100.0%**	**4,752.8**	**100.0%**

Since our establishment in 1998, we have operated our businesses in Shanxi Province and our head office and other operations in Taiyuan have become the largest sources of our operating income. In 2016, 2017 and 2018, operating income from our head office and our other operations in Taiyuan accounted for 108.7%, 92.3% and 82.8%, respectively, of our total operating income. We recorded negative operating income for the areas outside Taiyuan in 2016, mainly because (i) some outlets outside Taiyuan accepted deposits from banks and other financial institutions in 2016 and discontinued to offer such services in 2017 and 2018, which led to increase of interest-bearing liabilities and interest expense outside Taiyuan in 2016; and (ii) in order to better serve customers and control risks, certain types of businesses including financial investments were operated and managed by our head office in Taiyuan while the relevant interest-bearing liabilities such as deposits from customers still belonged to branches outside Taiyuan, as a result of which, the scale of the interest-earning assets belonging to outlets outside Taiyuan was relatively small compared to that of their interest-bearing liabilities and thus the interest income outside Taiyuan was smaller than the interest expense outside Taiyuan in 2016.

CASH FLOWS

The following table sets forth our cash flows for the years indicated.

	For the years ended December 31,		
	2016	2017	2018
	(in millions of RMB)		
Cash flows from operating activities before changes in operating assets and liabilities	2,539.9	3,483.2	3,636.0
Cash flows from changes in operating assets and liabilities	(397.0)	(21,630.7)	(24,061.2)
Net cash generated from/(used in) operating activities	**2,142.9**	**(18,147.5)**	**(20,425.2)**
Net cash (used in)/generated from investing activities	(11,326.2)	741.6	(3,196.4)
Net cash generated from financing activities	8,960.7	17,618.6	23,870.8
The effect of exchange rate fluctuations on cash and cash equivalents	5.6	(1.6)	(0.3)
Net (decrease)/increase in cash and cash equivalents	**(217.0)**	**211.1**	**248.9**

Cash Flows Generated from/(Used in) Operating Activities

Cash inflows from operating activities are primarily attributable to increases in deposits from customers and financial assets sold under repurchase agreements. Cash outflows from operating activities are primarily attributable to increases in loans and advances to customers and financial assets held under resale agreements and decrease in deposits from banks and other financial institutions.

The increase in our deposits from customers was RMB12,524.5 million, RMB19,897.5 million and RMB6,977.1 million in 2016, 2017 and 2018, respectively. We had an increase in our financial assets sold under repurchase agreements of RMB9,059.9 million in 2017. We incurred a decrease in our financial assets sold under repurchase agreements of RMB5,374.6 million and RMB1,625.2 million in 2016 and 2018, respectively. The decrease in our deposits from banks and other financial institutions was RMB1,059.6 million, RMB18,553.1 million and RMB8,988.3 million in 2016, 2017 and 2018, respectively.

The increase in our loans and advances to customers amounted to RMB4,839.1 million, RMB28,909.9 million and RMB4,974.6 million in 2016, 2017 and 2018, 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 an increase in deposits with the central bank of RMB697.6 million and RMB650.4 million in 2016 and 2017, respectively, and a decrease in deposits with the central bank of RMB308.9 million in 2018. The increase in our financial assets held under resale agreements was RMB5,431.1 million and RMB12,867.6 million in 2017 and 2018, respectively. The decrease in our financial assets held under resale agreements was RMB133.0 million in 2016.

Primarily as a result of the foregoing, our net cash generated from operating activities was RMB2,142.9 million in 2016. We had net cash used in operating activities of RMB18,147.5 million in 2017, primarily attributable to (i) the increases in our loans and advances to customers and our financial assets held under resale agreements which was in line with our business expansion, and (ii) the decrease in our deposits from banks and other financial institutions, which resulted from our adjustment to the mix of financing structure pursuant to our risk management policies by increasing the funds we obtained from issuing debt securities while reducing deposits from banks and other financial institutions. We had net cash used in operating activities of RMB20,425.2 million in 2018, mainly due to (i) the increase in financial assets held under resale agreements in 2018, reflecting our efforts to improve the efficiency of the use of funds by entering into more reverse repurchase transactions in accordance with our needs for assets and liabilities management, and (ii) the decrease in deposits from banks and other financial institutions caused by our adjustment to the mix of financing structure pursuant to our risk management policies and business strategy.

In order to improve our cash flow position, we will continue to enhance our efforts to increase deposits from customers by innovating deposit products with specific features to address the demands of different customer groups, while optimizing our asset structure, closely monitoring and properly arranging the cash outflows from our credit extension business and financial assets held under resale agreements.

Cash Flows (Used in)/Generated from Investing Activities

Cash inflows from investing activities are primarily attributable to proceeds from the disposal and redemption of investments. We received cash from the sale and redemption of investments of RMB274,708.6 million, RMB124,663.1 million and RMB129,017.4 million in 2016, 2017 and 2018, respectively.

Our cash outflows from investing activities are primarily attributable to payments on purchase of investment securities. We used cash of RMB285,923.9 million, RMB123,885.3 million and RMB132,684.2 million in 2016, 2017 and 2018, respectively, to purchase investment securities.

Cash Flows Generated from Financing Activities

Our cash inflows from financing activities are primarily attributable to proceeds from issued debt securities and proceeds from capital contribution by shareholders. Our proceeds from issuance of debt securities was RMB9,761.8 million, RMB24,700.0 million and RMB69,425.1 million in 2016, 2017 and 2018, respectively. Our proceeds from capital contribution by shareholders was RMB4,190.0 million and RMB914.0 million in 2017 and 2018, respectively.

Our cash outflows from 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 RMB300.0 million, RMB10,304.1 million and RMB44,350.0 million in 2016, 2017 and 2018, respectively. Our interest paid in relation to debt securities issued was RMB206.7 million, RMB706.8 million and RMB1,665.9 million in 2016, 2017 and 2018, respectively. Our dividends paid was RMB294.4 million, RMB311.7 million and RMB463.5 million in 2016, 2017 and 2018, respectively.

LIQUIDITY

We fund our loans and investment portfolios principally through our deposits from customers. Although a majority of our deposits from customers have been short-term deposits, deposits from customers have been, and we believe will continue to be, a stable source of our customer funding. Deposits from customers with remaining maturities of less than one year or repayable on demand represented 83.5%, 77.7% and 71.5% of total deposits from customers as of December 31, 2016, 2017 and 2018, 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 – Loan Classification, Allowances and Write-offs – Other Operational and Risk Management Ratios".

We manage liquidity by monitoring the maturities of our assets and liabilities in an effort to ensure that we have sufficient funds to meet obligations as they become due. We have set requirements on the minimum proportion of maturity funds available to meet the demands for cash payment. We have also set the minimum level of interbank and other borrowing facilities in place to meet any unexpected liquidity requirements. Please see "Risk Management – Liquidity Risk Management".

The following table sets forth, as of December 31, 2018, the remaining maturities of our assets and liabilities.

	As of December 31, 2018							
	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	17,261.0	6,320.4	8.3	–	–	–	–	23,589.7
Deposits with banks and other financial institutions	–	381.9	–	7.6	402.8	–	–	792.3
Placements with banks and other financial institutions	–	–	500.1	–	–	–	–	500.1
Financial assets held under resale agreements	–	–	23,590.9	589.1	–	–	–	24,180.0
Loans and advances to customers	918.4	490.5	5,152.9	9,991.7	32,569.4	33,703.3	15,291.9	98,118.1
Financial investments	315.8	17,437.1	1,399.2	3,351.6	17,840.2	26,451.6	9,969.1	76,764.6
Others[(1)]	2,908.4	394.6	–	–	–	–	–	3,303.0
Total assets	**21,403.6**	**25,024.5**	**30,651.4**	**13,940.0**	**50,812.4**	**60,154.9**	**25,261.0**	**227,247.8**
Liabilities								
Borrowing from the central bank	–	–	–	–	590.0	–	–	590.0
Deposits from banks and other financial institutions	–	180.4	5.4	2.3	2,325.6	–	–	2,513.7
Placements from banks and other financial institutions	–	–	–	–	100.0	–	–	100.0
Financial assets sold under repurchase agreements	–	–	8,419.9	260.5	–	–	–	8,680.4
Deposits from customers	–	52,222.6	7,243.3	12,099.1	31,741.3	41,503.9	86.6	144,896.8
Debt securities issued	–	–	1,852.9	7,058.8	35,333.3	5,006.5	2,037.4	51,288.9
Other[(2)]	–	3,090.1	–	–	47.8	44.2	–	3,182.1
Total liabilities	**–**	**55,493.1**	**17,521.5**	**19,420.7**	**70,138.0**	**46,554.6**	**2,124.0**	**211,251.9**
Net position	**21,403.6**	**(30,468.6)**	**13,129.9**	**(5,480.7)**	**(19,325.6)**	**13,600.3**	**23,137.0**	**15,995.9**

Notes:

(1) Consists primarily of interest in associates, 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, 2018, the Bank's primary liquidity risk indicators, including the liquidity ratio, core liabilities ratio and liquidity gap ratio, had all complied with the regulatory requirements. For details of our liquidity indicators, please see "Supervision and Regulation – Loan Classification, Allowances and Write-offs – Other Operational and Risk Management Ratios".

Based on our experience, a majority of the maturing liabilities businesses including deposits will be rolled over and continue to remain with us. We have been focusing on maintaining stable sources of funding and increasing our deposits from customers. Furthermore, 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 measures to tackle the 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 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

Our total shareholders' equity increased by 51.8% from RMB9,671.3 million as of December 31, 2016 to RMB14,676.3 million as of December 31, 2017, and increased by 9.0% to RMB15,995.9 million as of December 31, 2018. 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, 2016	**8,996.9**
Share capital	–
Capital reserve	–
Surplus reserve	641.5
General reserve	194.0
Fair value reserve(1)	(30.8)
Surplus on remeasurement of net defined benefit liability	0.1
Retained earnings	(135.8)
Non-controlling interest	5.4
December 31, 2016	**9,671.3**
Share capital	–
Capital reserve	4,190.0
Surplus reserve	531.2
General reserve	450.9
Fair value reserve(1)	(84.4)
Surplus on remeasurement of net defined benefit liability	0.6
Retained earnings	(81.9)
Non-controlling interest	(1.4)
As of December 31, 2017	**14,676.3**
As of January 1, 2018 (in accordance with IFRS 9)	**14,211.8**
Share capital	1,600.0
Capital reserve	(675.0)
Surplus reserve	131.6
General reserve	227.2
Fair value reserve(1)	53.6
Impairment reserve(2)	(21.3)
(Deficit)/Surplus on remeasurement of net defined benefit liability	0.0
Retained earnings	464.7
Non-controlling interest	3.3
As of December 31, 2018	**15,995.9**

Notes:

(i) represents the accumulate 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.

(ii) 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.

We have adopted IFRS 9 commencing from January 1, 2018 and have 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, we issued a number of certificates of interbank deposit. The following are certificates of interbank deposit issued by us:

- In 2016, we issued a number of certificates of interbank deposit with total nominal amount of RMB13,880.0 million and duration between 1-12 months. The effective interest rates ranged from 2.70% to 5.30%;

- In 2017, we issued a number of certificates of interbank deposit with total nominal amount of RMB52,230.0 million and duration between 1-12 months. The effective interest rates ranged from 4.10% to 5.55%; and

- In 2018, we issued a number of certificates of interbank deposit with total nominal amount of RMB64,780.0 million and duration between 1-12 months. The effective interest rates ranged from 3.30% to 5.30%.

As of December 31, 2018, the fair value of our certificates of interbank deposit issued was RMB43,737.6 million.

In addition, in August 2015, we also issued 10-year tier-two capital debts with face value of RMB2,000.0 million. The coupon interest rate per annum is 5.80%. We have an option to redeem the bond at the end of the fifth year.

As of December 31, 2018, the fair value of the our tier-two capital debts issued was RMB2,034.1 million.

In December 2018, we also issued three-year financial bonds with face value of RMB5,000.0 million. The coupon interest rate per annum is 4.00%. As of December 31, 2018, the fair value of the our financial bonds issued was RMB4,986.0 million.

Capital Adequacy

We are subject to capital adequacy requirements as promulgated by the CBRC. We are required to maintain our capital adequacy ratio above the minimum level required by the CBRC 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 and PRC GAAP.

	As of December 31,		
	2016	**2017**	**2018**
	(in millions of RMB, except percentage)		
Core tier-one capital			
Share capital	3,268.0	3,268.0	4,868.0
Qualifying portion of capital reserve	908.8	5,098.8	4,423.9
Surplus reserve	2,524.0	3,055.2	3,186.8
General reserve	2,110.3	2,561.3	2,788.4
Other comprehensive income	(2.4)	(86.1)	(21.0)
Retained earnings	827.7	745.7	1,219.7
Qualifying portions of non-controlling interests	16.5	21.3	15.3
Total core tier-one capital	**9,652.9**	**14,664.2**	**16,481.1**
Core tier-one capital deductions	**(102.7)**	**(113.9)**	**(139.6)**
Net core tier-one capital	**9,550.2**	**14,550.3**	**16,341.5**
Other tier-one capital	1.3	1.9	2.0
Net tier-one capital	9,551.5	14,552.2	16,343.5
Tier-two capital	2,818.8	3,379.3	3,632.1
Net capital base(1)	**12,370.3**	**17,931.5**	**19,975.6**
Total risk-weighted assets	**98,928.0**	**143,213.0**	**153,784.6**
Core tier-one capital adequacy ratio	**9.65%**	**10.16%**	**10.63%**
Tier-one capital adequacy ratio	**9.65%**	**10.16%**	**10.63%**
Capital adequacy ratio	**12.50%**	**12.52%**	**12.99%**

Note:

(1) Also referred to in this prospectus as "regulatory capital".

We closely monitor capital adequacy ratios to ensure compliance with regulatory requirements. 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) managing the growth of risk-weighted assets.

As of December 31, 2016, 2017 and 2018, our core tier-one capital adequacy ratio was 9.65%, 10.16% and 10.63%, respectively. As of the same dates, our tier-one capital adequacy ratio was also 9.65%, 10.16% and 10.63%, respectively, and our capital adequacy ratio was 12.50%, 12.52% and 12.99%, respectively, which were all in compliance with the CBIRC requirements.

OFF-BALANCE SHEET COMMITMENTS

Our off-balance sheet commitments consist primarily of bank acceptances, loan commitment, letters of guarantee issued, operating lease commitments and capital commitment. The following table sets forth the contractual amounts of our off-balance sheet commitments as of the dates indicated.

	As of December 31,		
	2016	2017	2018
	(in millions of RMB)		
Loan commitment	980.5	2,873.3	1,652.3
Credit card commitment	–	1,208.2	2,701.3
Bank acceptances	28,118.9	16,825.8	22,081.3
Letter of credit	31.7	1,164.3	1,101.7
Letter of guarantee	16.6	44.6	45.5
Operating lease commitment	438.8	529.2	693.8
Capital commitment	57.6	57.3	66.0
Total	**29,644.1**	**22,702.7**	**28,341.9**

Our total off-balance sheet commitments decreased significantly from RMB29,644.1 million as of December 31, 2016 to RMB22,702.7 million as of December 31, 2017 primarily due to a significant decrease in our bank acceptances from RMB28,118.9 million as of December 31, 2016 to RMB16,825.8 million as of December 31, 2017. Our total off-balance sheet commitments increased by 24.8% to RMB28,341.9 million as of December 31, 2018 primarily due to (i) a 31.2% increase in our bank acceptance bills from RMB16,825.8 million as of December 31, 2017 to RMB22,081.3 million as of December 31, 2018, and (ii) our credit card commitments increased significantly from RMB1,208.2 million as of December 31, 2017 to RMB2,701.3 million as of December 31, 2018. For details of risks relating to off-balance sheet commitments, see "Risk Factors – Risks Relating to Our Business – We are subject to risks associated with off-balance sheet commitments".

During the Track Record Period, we had operating lease commitments of RMB438.8 million, RMB529.2 million and RMB693.8 million as of December 31, 2016, 2017 and 2018, respectively. For details of our operating lease commitments, please see Note 43(c) of the Accountants' Report in Appendix I.

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, 2018. For the remaining maturities of our assets and liabilities as of December 31, 2018, please see "– Liquidity".

	As of December 31, 2018			
	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
	(in millions of RMB)			
On-balance sheet contractual obligations				
Tier-two capital bonds issued	–	–	1,995.1	1,995.1
Interbank deposits issued	44,245.0	–	–	44,245.0
Financial bonds issued	–	4,998.2	–	4,998.2
Off-balance sheet contractual obligations				
Acceptances	22,081.3	–	–	22,081.3
Letters of credit	1,101.7	–	–	1,101.7
Letters of guarantees	38.7	6.8	–	45.5
Loan commitments	150.7	1,496.7	4.9	1,652.3
Credit card commitments	–	–	2,701.3	2,701.3
Total	**23,372.4**	**1,503.5**	**2,706.2**	**27,582.1**

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 38 to the Accountants' Report attached hereto as Appendix I to this prospectus.

QUANTITATIVE AND QUALITATIVE ANALYSIS OF MARKET RISK

Market risk is the risk of financial loss arising from changes in the value of a financial instrument as a result of changes in interest rates, foreign exchange rates, equity prices and commodity prices and other market changes that affect market risk-sensitive instruments. We are exposed to market risk primarily through the assets and liabilities on our balance sheet, as well as our off-balance sheet commitments and guarantees. The market risks to which we are primarily exposed are interest rate risk.

Interest Rate Risk

The primary source of our interest rate risk arises from mismatches in the maturities or repricing periods of our banking book. Maturity mismatches may cause net interest income to be affected by changes in the prevailing level of interest rates. Currently, we primarily use gap analysis and sensitivity analysis to assess our exposure to interest rate risk. In addition, different pricing bases for different assets and liabilities may also lead to interest rate risk for our assets and liabilities within the same repricing period. We manage our interest rate risk exposure primarily by adjusting the maturity profile and repricing pattern of our banking book based on our assessment of potential changes in the interest rate environment.

Repricing Gap Analysis

The following table sets forth, as of December 31, 2018, 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, 2018					
	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
	(in millions of RMB)					
Assets						
Cash and deposits with the central bank	22,708.4	–	–	–	881.3	23,589.7
Deposits with banks and other financial institutions	381.9	400.0	–	–	10.4	792.3
Placements with banks and other financial institutions	500.0	–	–	–	0.1	500.1
Financial assets held under resale agreements	24,173.0	–	–	–	7.0	24,180.0
Loans and advances to customers	30,434.1	32,519.9	31,182.3	3,484.2	497.6	98,118.1
Financial investments	4,939.5	17,663.1	25,799.1	9,830.4	18,532.5	76,764.6
Others(1)	–	–	–	–	3,303.0	3,303.0
Total assets	**83,136.9**	**50,583.0**	**56,981.4**	**13,314.6**	**23,231.9**	**227,247.8**
Liabilities						
Borrowing from the central bank	–	590.0	–	–	–	590.0
Deposits from banks and other financial institutions	180.4	2,300.0	–	–	33.3	2,513.7
Placements from banks and other financial institutions	–	100.0	–	–	–	100.0
Financial assets sold under repurchase agreements	8,675.9	–	–	–	4.5	8,680.4
Deposits from customers	71,052.0	31,253.0	40,784.5	86.5	1,720.8	144,896.8
Debt securities issued	8,911.7	35,333.4	4,998.2	1,995.1	50.5	51,288.9
Others(2)	–	–	–	–	3,182.1	3,182.1
Total liabilities	**88,820.0**	**69,576.4**	**45,782.7**	**2,081.6**	**4,991.2**	**211,251.9**
Asset-liability gap	**(5,683.1)**	**(18,993.4)**	**11,198.7**	**11,233.0**	**18,240.7**	**15,995.9**

Notes:

(1) Consists primarily of interest in associates, 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,					
	2016		2017		2018	
	Net profit	Equity	Net profit	Equity	Net profit	Equity
	(in millions of RMB)					
+100 basis-point.	(76.7)	(108.1)	(189.9)	(225.6)	(101.6)	(152.1)
-100 basis-point	76.9	110.3	192.9	230.8	102.1	155.2

Based on our assets and liabilities as of December 31, 2018, if interest rates increase by 100 basis points instantaneously, our net profit for the year ended December 31, 2018 would decrease by RMB101.6 million, and if interest rates decrease by 100 basis points instantaneously, our net profit for the year ended December 31, 2018 would increase by RMB102.1 million. Based on our assets and liabilities as of December 31, 2018, if interest rates increase by 100 basis points instantaneously, our shareholder's equity as of December 31, 2018 would decrease by RMB152.1 million, and if the interest rates decrease by 100 basis points instantaneously, our shareholders' equity as of December 31, 2018 would increase by RMB155.2 million.

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.

CAPITAL EXPENDITURE

Our capital expenditure for 2016, 2017 and 2018 was primarily for the renovation of our branch and sub-branch outlets, purchases of self-service banking equipment, and development of our information systems.

Our capital expenditure amounted to RMB154.7 million, RMB70.6 million and RMB412.2 million for 2016, 2017 and 2018, respectively. As of December 31, 2018, we had authorized capital commitments of RMB66.0 million, among which all of them have been contracted for.

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. See also Note 2(26) 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 it acts as agent as opposed to principal for the investors in all cases, and therefore has not consolidated these structured entities.

Impairment of financial assets

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 that loss event has an impact on the estimated future cash flows of the financial asset which can be reliably estimated.

Fair Value of Financial Instruments

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, we establish fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

During the Track Record Period, we had certain financial assets categorized within Level 3 of fair value measurement ("**Level 3 Financial Assets**"), which amounted to RMB1,419.2 million, RMB1,065.6 million and RMB3,971.5 million, respectively, as of December 31, 2016, 2017 and 2018, representing approximately 0.8%, 0.5% and 1.7%, respectively, of our total assets as of the same dates. For details on the Level 3 Financial Assets including their quantitative sensitivity analysis, please see Note 41 to the Accountants' Report in Appendix I.

We have implemented internal policies to ensure the reasonableness of fair value measurement on the Level 3 Financial Assets in line with our accounting policies, the applicable laws and regulations. Our Risk Management Department in the head office, which is composed of staff with sufficient industry-related experience and expertise, 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 finally submit the valuation result including relevant parameters to the Risk Management Committee under the senior management for its approval. Adjustment or change of relevant parameters is subject to review and approval of the Risk Management Committee under the senior management.

The Reporting Accountants and Auditor have conducted their work to obtain reasonable assurance about whether our historical financial information as a whole is free from any material misstatement, based on which, the Reporting Accountants and Auditor are of the view that the historical financial information gives a true and fair view of the Bank's and the Group's financial position as at December 31, 2016, 2017 and 2018 and of the Group's financial performance and cash flows.

In relation to the valuation of the Level 3 Financial Assets, our Directors had reviewed the valuation working papers and results prepared by the staff in charge of valuation and the financial statements prepared in accordance with IFRS, and had obtained sufficient understanding of the valuation model, methodologies and techniques on which the valuation is based. 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 (i) reviewed relevant documents and information provided by us; (ii) discussed with us to understand our relevant policies and procedures; and (iii) interviewed the Reporting Accountants to understand the work they have performed in relation to such valuation. Based on the above, the Joint Sponsors concur with our Directors' view on the valuation work for the Level 3 Financial Assets performed during the Track Record Period.

Impairment on Non-Financial Assets

Fixed assets, investment properties, 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 at 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.

Goodwill, 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.

We determine the useful life of intangible assets based on the period in which the intangible assets are expected to bring economic benefits to us. For example, computer software is estimated to have a useful life of 2-10 years, because the majority of our major business operating systems, such as our core business system, credit management system and financial information system, were put into use during the period from 2009 to 2011, and are currently still in use and able to meet the demands of our business development. Therefore, based on our historical experience, we estimate that the relevant computer software systems can be used for 2-10 years and will bring economic benefits to us over that period.

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 recognised for the asset in prior years. A reversal of an impairment loss is recognised as gains 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

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; 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 "amortized 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 40(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".

Under the expected credit loss impairment model, the rate of expected credit losses ("**Rate of ECL**") is calculated by dividing expected credit loss allowance by the balance of related assets. As of December 31, 2018, the Rate of ECL for our financial assets measured at amortized cost was 2.68%. This type of financial assets mainly includes the loans and advances to customers and financial investments which are measured at amortized cost. As of December 31, 2018, the Rate of ECL for loans and advances to customers which are classified as financial assets measured at amortized cost was 4.52%, and the Rate of ECL for financial investments measured at amortized cost was 2.00%. For more details on the expected credit loss impairment model and provision matrix for financial assets, please see Note 40(a) 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 we 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 amortized cost under IFRS 9; (ii) certain financial assets originally classified as held-to-maturity investments were classified as financial assets at amortized cost under IFRS 9; and (iii) certain financial assets originally classified as available-for-sale financial assets were classified as financial asset at fair value through other comprehensive income under IFRS 9.

Except for the changes in relation to impairment and classification and measurement of financial assets, 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.

Under IFRS 9 which we have adopted since January 1, 2018, our operating income in 2018 amounted to RMB4,752.8 million, representing a 3.8% increase from the result of RMB4,580.8 million in the same year should we apply IAS 39, which is attributable to a 335.7% increase in the net trading gains and a 180.9% increase in the net gains from investment securities, and also partially offset by a 15.4% decrease in the net interest income resulting from a 6.5% decrease in the interest income, as compared to the results should we apply IAS 39. These differences are mainly caused by reclassification of financial investments under IFRS 9. Our impairment losses on assets in 2018 also increased by 13.6% if compared to the result in the same year should we apply IAS 39, mainly due to the application of the expected credit loss impairment model under IFRS 9. For details, please see the subsection headed "– Results of Operations for the Years Ended December 31, 2017 and 2018". In addition, our deferred tax assets as of January 1, 2018 amounted to RMB1,216.1 million under IFRS 9, representing a 13.5% increase from RMB1,071.5 million as of December 31, 2017 under IAS 39, which was mainly caused by the application of expected credit loss model and reclassification of financial investments under IFRS 9. For details, see "Assets and Liabilities – Assets – Other Components of Our Assets". Our fair value reserve, retained earnings and non-controlling interests also decreased by 17.4%, 68.0% and 31.9%, respectively, from December 31, 2017 to January 1, 2018, due to the changes of the accounting policies. Please also refer to the subsection headed "– Capital Resources – Shareholders' Equity". Except for the changes as mentioned above, the adoption of IFRS 9 for the year ended December 31, 2018 does not result in any 5% or more increase/decrease in the amounts reported in the financial statements if compared to the adoption of IAS 39.

To illustrate the difference between IAS 39 and IFRS 9 and their impact on our financial results for the year ended December 31, 2018, we have prepared financial information for the year ended December 31, 2018 according to IAS 39 and IFRS 9, respectively.

	For the year ended December 31, 2018	
	Prepared according to IAS 39[(1)]	**Prepared according to IFRS 9**
	(unaudited)	
	(RMB in million)	
Interest income	8,923.1	8,345.0
Interest expense	(5,166.2)	(5,166.2)
Net interest income	**3,756.9**	**3,178.8**
Fee and commission income	490.3	490.3
Fee and commission expense	(66.6)	(66.6)
Net fee and commission income	**423.7**	**423.7**
Net trading gains	53.2	231.8
Net gains arising from investment securities	315.9	887.4
Other operating income	31.1	31.1
Operating income	**4,580.8**	**4,752.8**
Operating expenses	(1,750.8)	(1,750.8)
Impairment losses on assets	(1,351.4)	(1,535.5)
Operation profit	**1,478.6**	**1,466.5**
Share of profits of associates	33.2	33.2
Profit before tax	**1,511.8**	**1,499.7**
Income tax	(189.1)	(186.1)
Net profit	**1,322.7**	**1,313.6**
Net profit attributable to equity shareholders of the Bank	1,319.6	1,310.3
Net profit attributable to non-controlling interests	3.1	3.3
Items that may be reclassified subsequently to profit or loss:		
Financial assets at fair value through other comprehensive income:		
– net movement in the fair value reserve, net of tax	N/A	53.6
– net movement in the provision reserve, net of tax	N/A	(21.3)
Available-for-sale financial assets:		
– net movement in the fair value reserve, net of tax	65.2	N/A
Items that will not be reclassified to profit or loss:		
Remeasurement of net defined benefit liability, net of tax	(0.0)	(0.0)
Other comprehensive income, net of tax	**65.2**	**32.3**
Total comprehensive income	**1,387.8**	**1,345.9**
Total comprehensive income attributable to equity shareholders of the Bank	1,384.7	1,342.6
Total comprehensive income attributable to non-controlling interests	3.1	3.3

Note:

(1) These amounts under IAS 39 were prepared for illustrating the difference between IAS 39 and IFRS 9 only. Neither we had prepared, nor the reporting accountants had audited or reviewed, consolidated financial statements of the Group for the year ended December 31, 2018 based on IAS 39.

To show the impact of IFRS 9 on our financial results as of December 31, 2017, we include here our financial results 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
	Prepared according to IAS 39	Prepared according to IFRS 9
		(unaudited)
	(RMB in million)	
Assets		
Cash and deposits with the central bank	23,665.1	23,665.1
Deposits with banks and other financial institutions	858.4	858.3
Financial assets held under resale agreements	11,305.3	11,305.3
Placements with banks and other financial institutions	500.0	500.0
Loans and advances to customers	94,250.4	94,165.4
Financial investments	72,188.5	71,866.8
Interest in associates	218.5	218.5
Property and equipment	549.3	549.3
Deferred tax assets	1,071.5	1,216.1
Other assets	2,262.8	2,231.9
Total assets	**206,869.8**	**206,576.7**
Liabilities		
Borrowing from the central bank	1,025.0	1,025.0
Deposits from banks and other financial institutions	11,468.7	11,468.7
Placements from banks and other financial institutions	500.0	500.0
Financial assets sold under repurchase agreements	10,301.2	10,301.1
Deposits from customers	136,198.9	136,198.9
Income tax payable	336.2	336.2
Debt securities issued	26,163.2	26,163.2
Other liabilities	6,200.3	6,371.7
Total Liabilities	**192,193.5**	**192,364.8**
Equities		
Share capital	3,268.0	3,268.0
Capital reserve	5,098.8	5,098.8
Surplus reserve	3,055.2	3,055.2
General reserve	2,561.3	2,561.3
Fair value reserve	(86.7)	(71.6)
Impairment reserve	N/A	38.5
(Deficit)/surplus on remeasurement of net defined benefit liability	0.5	0.5
Retained earnings	745.7	238.4
Non-controlling interests	33.5	22.8
Total equity	**14,676.3**	**14,211.9**
Total liabilities and total equity	**206,869.8**	**206,576.7**

In addition, we have adopted IFRS 15 on January 1, 2018. IFRS 15 replaces 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 for the year ended December 31, 2018 does not result in any significant impact on our financial position and performance. Please also see Note 2(1)(a) to the Accountants' Report in Appendix I.

Description of Differences between PRC GAAP and IFRS

For the years ended December 31, 2016 and 2017, our net profit calculated in accordance with PRC GAAP was the same as the amount calculated in accordance with IFRS for the same year, respectively. There is no material difference between PRC GAAP and IFRS in terms of preparing our financial statements for the years ended December 31, 2016 and 2017.

On January 1, 2018, we adopted IFRS 9 to replace IAS 39. In order to achieve the convergence of PRC GAAP and IFRS, the MOF promulgated a series of regulations relating to PRC GAAP in 2017 setting forth standards ("**New Standards of PRC GAAP**") which are substantially the same as those in IFRS 9. We started to apply the New Standards of PRC GAAP on January 1, 2019, rather than in 2018, which resulted in certain differences between our financial statements prepared under PRC GAAP for 2018 and our financial statements prepared under IFRS for the same year. For the year ended December 31, 2018, our net profit calculated in accordance with PRC GAAP was not materially different from the amount calculated in accordance with IFRS.

The Bank expects that, after January 1, 2019, if no new accounting standards or related amendments arise which results in our adoption of relevant standards at different timing under PRC GAAP and IFRS, there would be no material difference between our net profit prepared in accordance with PRC GAAP and our net profit prepared in accordance with IFRS for the same period.

INDEBTEDNESS

As of April 30, 2019 (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 RMB40,040.0 million;
- tier-two capital bonds in an aggregate principal amount of RMB2,000.0 million;
- financial bonds in an aggregate principal amount of RMB5,000.0 million;
- lease liabilities in an amount of RMB512.0 million;

- deposits from customers, borrowing from the central bank, deposits and placements from banks and other financial institutions, and financial assets sold under repurchase agreements that arose from the normal course of our banking business; and

- loan commitments, bank acceptances, letters of credit and letters of guarantee issued, other commitments and contingencies that arose from our normal course of banking business.

Except as disclosed above, we did not have, as of April 30, 2019, 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 there has not been any material change in our indebtedness or contingent liabilities since April 30, 2019 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.

DIVIDEND AND DIVIDEND POLICY

Our Board of Directors is responsible for submitting proposals in respect of dividend payments, if any, to the Shareholders at a general meeting for approval.

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. Subject to our Articles of Association and laws and regulations on profit distribution by banks, our Board of Directors will recommend dividend payments to our Shareholders. 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.

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 represents 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 an annual 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, 2018, the balance of our general reserve amounted to RMB2,788.4 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, 2018, we had a capital adequacy ratio of 12.99%, a tier-one capital adequacy ratio of 10.63% and a core tier-one capital adequacy ratio of 10.63%, which were all in compliance with the relevant CBIRC regulations. For details, please see "Supervision and Regulation – Supervision Over Capital Adequacy – Regulatory Requirements in respect of Capital Adequacy Ratios".

In 2017, we had declared and distributed dividends of cash dividends of RMB326.8 million for the year ended December 31, 2016. In May 2018, our Shareholders approved and passed the resolution in respect of the dividends for the year ended December 31, 2017 in a shareholders general meeting and the Board had since declared and distributed cash dividends of RMB486.8 million in respect of the year ended December 31, 2017.

On April 3, 2019, our Board of Directors passed a resolution which proposed to declare and distribute cash dividends of RMB486.8 million for the year ended December 31, 2018 to all existing shareholders on record as of December 31, 2018. The declaration and distribution of these dividends were approved by our Shareholders' meeting on April 29, 2019. We have declared and distributed these dividends in respect of the year ended December 31, 2018 with our internal funds.

As of the Latest Practicable Date, our declared but unpaid dividends amounted to RMB261.2 million, mainly comprising (i) dividends payable to shareholders that we were unable to contact, and (ii) dividends payable to shareholders who did not timely claim the dividends. We intend to use our internal funds to pay these declared but unpaid dividends after locating relevant shareholders, in accordance with relevant PRC laws and regulations.

Under the dividend policy approved by our Shareholders in 2018, both current and new 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

The listing expenses to be borne by us are estimated to be approximately RMB101.1 million (equivalent to approximately HK$114.9 million, assuming the Over-allotment Option is not exercised and the mid-point of the indicative Offer Price range of HK$3.89). RMB1.9 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, 2018, approximately RMB13.9 million is expected to be charged to our consolidated statements of profit or loss and other comprehensive income, and approximately RMB85.3 million is expected to be accounted for as a deduction from equity upon the Listing. 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, 2019.

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, 2018 derived from our financial information as of December 31, 2018 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, 2018 as if the Global Offering had occurred on December 31, 2018. 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.

	Consolidated net tangible assets attributable to Shareholders of the Bank as of December 31, 2018	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets attributable to Shareholders of the Bank	Unaudited pro forma adjusted consolidated net tangible assets per H Share	
	RMB Million Note(1)	RMB Million Notes(2)/(5)	RMB Million Note(3)	RMB Note(4)	HK$ Notes(5)&(6)
Based on an offer price of HK$3.80 per H Share.	15,830.3	2,777.7	18,608.0	3.25	3.69
Based on an offer price of HK$3.98 per H Share	15,830.3	2,911.8	18,742.1	3.27	3.72

Notes:

(1) The consolidated net tangible assets attributable to Shareholders of the Bank as of December 31, 2018 are based on the consolidated total equity attributable to Shareholders of the Bank of RMB15,969.9 million, after deduction of intangible assets of RMB139.6 million.

(2) The estimated net proceeds from the Global Offering for the purpose of unaudited pro forma adjusted consolidated net tangible assets are based on the Offer Price of HK$3.80 per H Share (being the low-end of the proposed Offer Price range) and HK$3.98 per H Share (being the high-end of the proposed Offer Price range) and there are 860,000,000 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 RMB1.9 million which have already been charged to consolidated 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 consolidated net tangible assets attributable to Shareholders of the Bank do not take into account the financial results or other transactions of the Group subsequent to December 31, 2018.

(4) The unaudited pro forma adjusted consolidated 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 5,728,000,000 Shares in issue assuming that the Global Offering has been completed on December 31, 2018, 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 consolidated net tangible assets per Share are translated into or from Renminbi at the rate of RMB0.88000 to HK$1.00, the exchange rate set by the PBoC prevailing on June 20, 2019. 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.

(6) The unaudited pro forma adjusted consolidated net tangible assets per Share does not take into account the declaration of cash dividends of RMB486.8 million subsequent to 31 December 2018, details of which are disclosed in the section headed "Summary – Dividend and Dividend Policy" in this prospectus. Had such dividend been taken into account, the unaudited pro forma adjusted consolidated net tangible assets per Share would be approximately HK$3.59 (based on an Offer Price of HK$3.80 per H Share) and approximately HK$3.63 (based an Offer Price of HK$3.98 per H Share) respectively.

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Our business has continued to experience growth since December 31, 2018. In February 2019, we obtained the Class-B lead underwriter qualification for underwriting debt financing instruments issued by non-financial enterprises.

As of March 31, 2019, our total assets increased to RMB229,553.1 million from RMB227,247.8 million as of December 31, 2018, mainly thanks to increases in loans and advances to customers and financial investments, reflecting our efforts in expanding our loan business and achieving optimized use of funds for better investment returns. As of March 31, 2019, our total liabilities increased to RMB213,179.7 million from RMB211,251.9 million as of December 31, 2018, primarily attributable to increases in deposits from customers, placements from banks and other financial institutions and financial assets sold under repurchase agreements which were driven by our business expansion.

For the three months ended March 31, 2019, our operating income decreased slightly to RMB1,207.0 million from RMB1,269.6 million for the same period in 2018, mainly caused by decreases in net trading gains and net interest income. The decrease of our net interest income from RMB887.0 million for the three months ended March 31, 2018 to RMB819.7 million for the three months ended March 31, 2019 was primarily attributable to (i) the decreased prevailing market rate for discounted bills; and (ii) the increase in our average cost of deposits from customers driven by the intensified market competition and the increased proportion of time deposits; and (iii) the increase in the average balance of debt securities issued by us. During the same period, the decrease of our net trading gains from RMB141.8 million to RMB57.2 million mainly reflected a decrease in fair value of the debt securities and funds that we held due to the impact from market conditions. For the three months ended March 31, 2019, our net gains arising from investment securities increased to RMB193.9 million from RMB157.0 million for the same period in 2018, mainly driven by the increased scale of our investment in debt securities.

The financial information as of and for the three months ended March 31, 2019 as shown above was extracted from the unaudited condensed consolidated interim financial statements as of and for the three months ended March 31, 2019 of the Group prepared by the Directors in accordance with IAS 34 "Interim Financial Reporting", which were reviewed by KPMG, the reporting accountants of the Group, 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.

After taking into account various factors, including policies of relevant regulatory authorities, market demand for relevant assets and our business strategy, we may choose to dispose of certain loans and advances when we deem appropriate in accordance with our risk management policies.

Our Directors confirm that there was no material adverse change in our financial or operational position from December 31, 2018 to the date of this prospectus.

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 entitled "Business – Our Development Strategies" in this prospectus for a detailed description of our future plans.

USE OF PROCEEDS

Assuming an Offer Price of HK$3.80, 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$3,154.3 million, if the Over-allotment Option is not exercised; or approximately HK$3,636.9 million, if the Over-allotment Option is exercised in full.

Assuming an Offer Price of HK$3.89, being the mid-point of the proposed Offer Price range of HK$3.80 to HK$3.98, 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$3,230.5 million, if the Over-allotment Option is not exercised; or to be approximately HK$3,724.5 million, if the Over-allotment Option is exercised in full.

Assuming an Offer Price of HK$3.98, 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$3,306.7 million, if the Over-allotment Option is not exercised; or to be approximately HK$3,812.1 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

The Bank has 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 1,000 H Shares) that may be purchased for in an aggregate amount of approximately US$122.0 million (approximately HK$954.8 million[(1)]) at the Offer Price (the "**Cornerstone Placing**").

Based on the Offer Price of HK$3.80 (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 251,251,000, representing approximately (i) 32.46% of the International Offer Shares, assuming that the Over-allotment Option is not exercised; (ii) 27.82% of the International Offer Shares, assuming that the Over-allotment Option is fully exercised; (iii) 29.22% of the Offer Shares, assuming that the Over-allotment Option is not exercised; (iv) 25.40% of the Offer Shares, assuming that the Over-allotment Option is fully exercised; (v) 4.39% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised; or (vi) 4.29% 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$3.89 (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 245,437,000, representing approximately (i) 31.71% of the International Offer Shares, assuming that the Over-allotment Option is not exercised; (ii) 27.18% of the International Offer Shares, assuming that the Over-allotment Option is fully exercised; (iii) 28.54% of the Offer Shares, assuming that the Over-allotment Option is not exercised; (iv) 24.82% of the Offer Shares, assuming that the Over-allotment Option is fully exercised; (v) 4.28% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised; or (vi) 4.19% 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$3.98 (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 239,888,000, representing approximately (i) 30.99% of the International Offer Shares, assuming that the Over-allotment Option is not exercised; (ii) 26.57% of the International Offer Shares, assuming that the Over-allotment Option is fully exercised; (iii) 27.89% of the Offer Shares, assuming that the Over-allotment Option is not exercised; (iv) 24.26% of the Offer Shares, assuming that the Over-allotment Option is fully exercised; (v) 4.19% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised; or (vi) 4.10% of the Shares in issue upon completion of the Global Offering, assuming the Over-allotment Option is fully exercised.

To the best knowledge of the Bank, each of the Cornerstone Investors and their respective ultimate beneficial owners is independent of each other, independent of the Bank, its connected persons and their respective associates, and not an existing shareholder or close associates of the Bank. For each Cornerstone Investors 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).

The Cornerstone Placing forms part of the International Offering. The Offer Shares to be subscribed for by the Cornerstone Investors will rank *pari passu* in all respects with the other fully paid Offer Shares in issue and will be counted towards the public float of the Bank. None of the Cornerstone Investors will subscribe for any Offer Shares under the Global Offering (other than 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 may be deducted on a pro rata basis to satisfy the public demands under the Hong Kong Public 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 17, 2019.

Note:

(1) Calculated based on an exchange rate of HK$7.8259 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	Indicative Offer Price[(1)]	Number of H Shares to be subscribed for[(2)]	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)
Shanxi Qinxin Energy Group Co., Ltd. (山西沁新能源集團股份有限公司) . .	US$50 million	HK$3.80	102,972,000	13.30%	11.40%	11.97%	10.41%	1.80%	1.76%
		HK$3.89	100,589,000	13.00%	11.14%	11.70%	10.17%	1.76%	1.72%
		HK$3.98	98,315,000	12.70%	10.89%	11.43%	9.94%	1.72%	1.68%
Taiyuan Industrial Park Investment Holdings Co., Ltd. (太原工業園區投資控股有限公司) . .	US$50 million	HK$3.80	102,972,000	13.30%	11.40%	11.97%	10.41%	1.80%	1.76%
		HK$3.89	100,589,000	13.00%	11.14%	11.70%	10.17%	1.76%	1.72%
		HK$3.98	98,315,000	12.70%	10.89%	11.43%	9.94%	1.72%	1.68%
Chenxing Real Estate Development Co., Ltd. (辰興房地產發展有限公司) . . .	US$22 million	HK$3.80	45,307,000	5.85%	5.02%	5.27%	4.58%	0.79%	0.77%
		HK$3.89	44,259,000	5.72%	4.90%	5.15%	4.48%	0.77%	0.76%
		HK$3.98	43,258,000	5.59%	4.79%	5.03%	4.37%	0.76%	0.74%

Notes:

(1) Being the low-end, mid-point and high-end of the proposed Offer Price range set out in this prospectus respectively.

(2) Number of H Shares to be subscribed for is based on investment amounts exchanged at an exchange rate of HK$7.8259 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 information about the Cornerstone Investors as set forth below has been provided by the Cornerstone Investors.

1. Shanxi Qinxin Energy Group Co., Ltd. (山西沁新能源集團股份有限公司)

Shanxi Qinxin Energy Group Co., Ltd. ("**Shanxi Qinxin**") is a limited liability company established in the PRC on April 22, 1995. Beijing Hexinyuan Investment Co., Ltd. (北京市和信源投資有限公司) is the controlling shareholder of Shanxi Qinxin and holds approximately 52.3% equity interest in Shanxi Qinxin. The ultimate single largest shareholder of Beijing Hexinyuan Investment Co., Ltd. (北京市和信源投資有限公司) is Mr. SUN Hongyuan (孫宏原). Shanxi Qinxin is principally engaged in the development of resources including coal mining and processing, generation of electricity, heat energy generation and manufacturing of machineries.

For the purpose of this cornerstone investment, Shanxi Qinxin has engaged an asset manager, which is a QDII, to subscribe for and hold such Offer Shares on behalf of Shanxi Qinxin.

2. Taiyuan Industrial Park Investment Holdings Co., Ltd. (太原工業園區投資控股有限公司)

Taiyuan Industrial Park Investment Holdings Co., Ltd. ("**Taiyuan Industrial Park**") is a limited liability company established in the PRC on April 3, 2007 and wholly-owned by Yangqu Industrial Park Business Service Center of Shanxi Transformation Comprehensive Reform Demonstration Zone (Taiyuan Industrial Park Management Committee) (山西轉型綜合改革示範區陽曲產業園區事業服務中心(太原工業園區管委會)), a public institution (事業單位). Taiyuan Industrial Park is principally engaged in investment in enterprises and consulting services.

For the purpose of this cornerstone investment, Taiyuan Industrial Park has engaged an asset manager, which is a QDII, to subscribe for and hold such Offer Shares on behalf of Taiyuan Industrial Park.

3. Chenxing Real Estate Development Co., Ltd. (辰興房地產發展有限公司)

Chenxing Real Estate Development Co., Ltd. ("**Chenxing**") is a limited liability company established in the PRC on December 21, 2004 and indirectly wholly owned by Chen Xing Development Holdings Limited, a company listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 2286). Chenxing is principally engaged in sales and development of properties. Chen Xing Development Holdings Limited is one of the leading property developers in Shanxi Province, focusing on development of projects primarily comprising residential and, to a lesser extent, commercial properties.

For the purpose of this cornerstone investment, Chenxing has engaged an asset manager, which is a QDII, to subscribe for and hold such Offer Shares on behalf of Chenxing.

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 having been entered into and having become 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);

(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) as well as other applicable waivers and approvals and such approval, permission or waiver having not been revoked prior to the commencement of dealings in the H Shares on the Hong Kong Stock Exchange;

(iv) no laws, statues, 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, without the prior written consent of the Bank and the relevant underwriter(s), it will not, whether directly or indirectly, at any time during the period of six (6) months starting from and inclusive of the Listing Date, (a) 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 or jointly controlled entity of such Cornerstone Investor provided that, amongst other requirements, such wholly-owned subsidiary or jointly controlled entity undertakes to, and the Cornerstone Investor undertakes to procure that such subsidiary or jointly controlled entity will, abide by such restrictions imposed on the Cornerstone Investor, (b) allow itself to undergo a change of control (as defined in the Takeovers Code) at the level of its ultimate beneficial owner, (c) agree or contract to sell, or publicly announce any intention to enter into any of the transactions as described above, or (d) enter into any transactions directly or indirectly with the same economic effect as any aforesaid transaction.

HONG KONG UNDERWRITERS

CCB International Capital Limited

China International Capital Corporation Hong Kong Securities Limited

CMB International Capital Limited

AMTD Global Markets Limited

Shanxi Securities International Limited

SPDB International Capital Limited

ABCI Securities Company Limited

ICBC International Securities Limited

Haitong International Securities Company Limited

Head & Shoulders Securities Limited

I Win Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Bank is offering initially 86,000,000 Hong Kong Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to the Listing Committee of the Hong Kong Stock Exchange granting approval for listing of, and permission to deal in, the H Shares in issue and to be offered as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally 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, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to, amongst other things, the International Underwriting Agreement having been signed and becoming 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 subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination. If at any time prior to 8:00 a.m. on the Listing Date:

- there develops, occurs, exists or comes into force:

  (a) any new law or regulation or any change or development involving a prospective change or any event or series of events or circumstance likely to result in a change or a development involving a prospective change in existing law or regulation or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the PRC, Singapore, the United States, the United Kingdom, the European Union (or any member thereof) or Japan, being jurisdictions relevant to the Bank or the Global Offering (each a "**Relevant Jurisdiction**"); or

  (b) any change or development involving a prospective change or development, or any event or series of events or circumstance likely to result in or representing a change or development, or prospective change or development, in local, national, regional or international financial, political, military, industrial, economic, currency market, credit, fiscal or regulatory or market conditions or any monetary or trading settlement system (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets, and inter-bank and credit markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a change of the Hong Kong dollars or of the Renminbi against any foreign currencies) in or affecting any Relevant Jurisdiction; or

  (c) any event or series of events or circumstance in the nature of force majeure (including, without limitation, acts of government, labour disputes, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, acts of terrorism (whether or not responsibility has been claimed), acts of God, accident or interruption in transportation, outbreak of diseases or epidemics) in or directly or indirectly affecting any Relevant Jurisdiction; or

(d) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any Relevant Jurisdiction; or

(e) 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 shares or securities generally on the Hong Kong Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Singapore Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or the Tokyo Stock Exchange; or

(f) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent Governmental Authority (as defined in the Hong Kong Underwriting Agreement)), New York (imposed at Federal or New York State level or other competent Governmental Authority), London, Singapore, the PRC, the European Union (or any member thereof) or Japan or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any Relevant Jurisdiction; or

(g) any (A) change or development involving a prospective change in exchange controls or the implementation of any exchange control, in any of the Relevant Jurisdictions, or (B) any change or development involving a prospective change in taxation in any Relevant Jurisdiction; or

(h) the issue or requirement to issue by the Bank of a supplemental or amendment to this prospectus, Application Forms, preliminary offering circular or offering circular of the International Offering or other documents in connection with the offer of the H Shares pursuant to the Companies Ordinance, the Companies (Winding up and Miscellaneous Provisions) Ordinance or the Listing Rules or upon any requirement or request of the Hong Kong Stock Exchange or the SFC; or

(i) any change or development involving a prospective change which has the effect of materialization of any of the risks set out in the section headed "Risk Factors" in this prospectus; or

(j) any investigation, claim, proceeding or other actions being threatened or instigated against any member of the Group or any Director; or

(k) an administrative, governmental or regulatory body or organization in any Relevant Jurisdiction commencing any investigation, claim, proceeding or other actions, or announcing an intention to commence any Proceedings, against any member of the Group or any Director; or

(l) any of the chairman or president of the Bank vacating his office, any executive Director being charged with an indictable offence or prohibited by operation of laws or regulations or otherwise disqualified from taking part in the management of a company; or

(m) any contravention by any member of the Group or any Director of the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the SFO, the PRC Company Law, the Listing Rules or applicable laws or regulations; or

(n) any demand by creditors for repayment of indebtedness or a petition being presented for the winding-up or liquidation of any member of the Group, or any member of the Group making any composition or arrangement with its creditors or entering into a scheme of arrangement or any resolution being passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager being appointed over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group; or

(o) a prohibition on the Bank for whatever reason from offering, allotting or selling the H Shares (including H Shares to be issued pursuant to the Over-allotment Option) pursuant to the terms of the Global Offering; or

(p) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, any Relevant Jurisdiction,

which, in any such case individually or in the aggregate, in the sole and absolute opinion of the Joint Representatives (for themselves and on behalf of the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters): (A) is or will be or may be materially adverse to, or materially and prejudicially affects, the assets, liabilities, business, general affairs, management, shareholder's equity, profit, losses, results of operations, position or condition (financial or otherwise), or prospects of the Bank or the Group as a whole; or (B) has or will have or may have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering; or (C) makes or will make it or may make it impracticable or inadvisable or inexpedient to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus, the Application Forms, the formal notice of the Hong Kong Public Offering, the preliminary offering circular or the offering circular of the Global Offering, and/or to perform or implement any material part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering as envisaged; or (D) would have or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents or delays the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

- there has come to the notice of any of the Joint Representatives, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers or the Hong Kong Underwriters after the date of the Hong Kong Underwriting Agreement:

  (a) that any statement contained in the this prospectus, the Application Forms and the formal notice of the Hong Kong Public Offering, the application proof of this prospectus, the post hearing information pack of the Bank and/or any notices, announcements, advertisements, communications issued or used by or on behalf of the Bank in connection with the Global Offering (including any supplement or amendment thereto) was or has become untrue, incomplete, incorrect in any material respect or misleading or any forecasts, estimate, expressions of opinion, intention or expectation expressed in the this prospectus, the Application Forms and the formal notice of the Hong Kong Public Offering, the application proof of this porospectus, the post hearing information pack of the Bank and/or any notices, announcements, advertisements, communications so issued or used are not fair and honest and not made on reasonable grounds or, where appropriate, not based on reasonable assumptions, when taken as a whole; or

  (b) non-compliance of this prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law or regulation in any material respect; or

  (c) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, not having been disclosed in this prospectus, constitutes a material omission therefrom; or

  (d) either (i) there has been a breach of any of the representations, warranties, undertakings or provisions of either the Hong Kong Underwriting Agreement or the International Underwriting Agreement by the Bank or (ii) any of the representations, warranties and undertakings given by the Bank in the Hong Kong Underwriting Agreement or the International Underwriting Agreement, as applicable, is (or would when repeated be) untrue, incorrect or misleading; or

  (e) that any of the experts (other than the Joint Sponsors) has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be) and references to its name included in the this prospectus, the Application Forms and the formal notice of the Hong Kong Public Offering; or

(f) any event, act or omission which gives or is likely to give rise to any liability of the Bank pursuant to the indemnities given by the Bank under the Hong Kong Underwriting Agreement; or

(g) any litigation or dispute or potential litigation or dispute, which would materially and adversely affect the operation or financial condition of the Group, as a whole; or

(h) any material breach of any of the obligations of the Bank under the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or

(i) a significant portion of the orders in the bookbuilding process at the time of the International Underwriting Agreement is entered into, or the investment commitments by any cornerstone investors after signing of agreements with such cornerstone investors, have been withdrawn, terminated cancelled or repudiated; or

(j) any material adverse change or prospective material adverse change or development involving a prospective material adverse change in the assets, business, general affairs, management, shareholder's equity, profits, losses, properties, results of operations, in the position or condition (financial or otherwise) or prospects of the Group, as a whole; or

(k) the approval by the Listing Committee of the Stock Exchange of the Listing of, and permission to deal in, the Offer Shares to be offered pursuant to the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the such approval is subsequently withdrawn, cancelled, qualified (other than by customary conditions), revoked or withheld; or

(l) the Bank has withdrawn this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering,

then the Joint Representatives (for themselves and on behalf of the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters) and the Joint Sponsors may, in their sole and absolute discretion and upon giving prior notice in writing to the Bank, terminate the Hong Kong Underwriting Agreement with immediate effect.

Undertakings to the Hong Kong Stock Exchange pursuant to the Hong Kong Listing Rules

Undertakings by Our Bank

We have undertaken to the Hong Kong Stock Exchange that, except in certain circumstances prescribed by Rule 10.08 of the Hong Kong Listing Rules or pursuant to the Global Offering and the Over-allotment Option, no further shares or securities convertible into shares of our Bank (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the date on which our H Shares first commence dealing 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 dealing).

Undertakings to the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement

Undertakings by Our Bank

Except pursuant to the Global Offering (including pursuant to the Over-allotment Option), we have also undertaken to each of the Joint Representatives, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that except pursuant to the Global Offering (including pursuant to the Over-allotment Option), at any time from the date of the Hong Kong Underwriting Agreement up to and including the date falling six months after the Listing Date (the "**First Six Month Period**"), it will not, without the prior written consent of the Joint Representatives (for themselves and on behalf of the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

(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 (as defined in the Hong Kong Underwriting Agreement) over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, or repurchase, any legal or beneficial interest in the H Shares or any other securities of the Bank, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase any H Shares or other securities of the Bank, as applicable), or deposit any H Shares or other securities of the Bank, as applicable, with a depositary in connection with the issue of depositary receipts; or

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership (legal or beneficial) of any H Shares or any other securities of the Bank or any shares or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any H Shares or other securities of the Bank, as applicable or any interest in any of the foregoing); or

(iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or

(iv) offer to or agree to do, or announce any intention to effect, 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 securities, in cash or otherwise (whether or not the issue of such share capital or other securities will be completed within the First Six Month Period).

The Bank further agrees that, in the event the Bank enters into any of the transactions described in (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction after the First Six Month Period, it will take all reasonable steps to ensure that such an issue or disposal will not, and no other act of the Bank will, create a disorderly or false market for any H Shares or other securities of the Bank.

Indemnity

Our Bank has agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by our Bank of the Hong Kong Underwriting Agreement.

The International Offering

In connection with the International Offering, it is expected that our Bank will enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, among others, the International Underwriters will, subject to certain conditions set out therein, severally and not jointly, agree to procure subscribers for, or themselves to subscribe for or purchase their respective proportions of the International Offer Shares initially being offered pursuant to the International Offering.

Our Bank is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Representatives on behalf of the International Underwriters at any time from the date of the International Underwriting Agreement until 30 days after the last date for the lodging of applications under the Hong Kong Public Offering, to require our Bank to issue and allot up to an aggregate of 129,000,000 additional Offer Shares, representing 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering to cover over allocations (if any) in the International Offering.

It is expected the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors shall be reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

Commission and Expenses

The Hong Kong Underwriters will receive an underwriting commission equal to 1% of the aggregate Offer Price in respect of all of the Hong Kong Offer Shares (excluding any International Offer Shares reallocated to the Hong Kong Public Offering and any Hong Kong Offer Shares reallocated to the International Offering). For any International Offer Shares reallocated to the Hong Kong Public Offering and any Hong Kong Offer Shares reallocated to the International Offering, the underwriting commission shall not be paid to the Hong Kong Underwriters as the relevant underwriting commission relating to such Offer Shares will be payable to the International Underwriters in accordance with the International Underwriting Agreement. In addition, the Bank may at its sole and absolute discretion pay to any one or part of or all of the Hong Kong Underwriters for their respective accounts an incentive fee of up to an aggregate of no more than 0.5% of the aggregate Offer Price in respect of all of the Hong Kong Offer Shares (excluding such Offer Shares reallocated to and from the Hong Kong Public Offering).

Assuming an Offer Price of HK$3.89 per H Share (being the mid-point of the indicative Offer Price range), the aggregate commissions and fees (assuming the full payment discretionary incentive fee and no exercise of the Over-allotment Option), together with listing fees, SFC transaction levy, Hong Kong Stock Exchange trading fee, legal and other professional fees and printing and other expenses, payable by our Bank relating to the Global Offering are estimated to be approximately HK$114.9 million in total. Such commissions, fees and expenses are payable by our Bank.

The commission and expenses were determined after arm's length negotiation between our Bank and the Hong Kong Underwriters or other parties by reference to the current market conditions.

HONG KONG UNDERWRITERS' INTERESTS IN THE BANK

Save for its obligations under the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding interests in our Bank or the right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in our Bank.

Following the completion of the Global Offering, the Underwriters and their affiliated companies may hold a certain portion of the H Shares as a result of fulfilling their obligations under the Underwriting Agreements.

JOINT SPONSORS' INDEPENDENCE

Each of the Joint Sponsors satisfies the independence criteria set out in Rule 3A.07 of the Hong Kong Listing Rules.

RESTRICTIONS ON THE OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than in Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. In particular, the Offer Shares have not been offered or sold, and will not be offered or sold, directly or indirectly, in China and the U.S.

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, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In the ordinary course of their various business activities, the Syndicate Members and their respective affiliates may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers. Such investment and trading activities may involve or relate to assets, securities and/or instruments of our Bank and/or persons and entities with relationships with our Bank and may also include swaps and other financial instruments entered into for hedging purposes in connection with the Group's loans and other debt.

In relation to the H Shares, the activities of the Syndicate Members and their affiliates 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, including as a lender to initial purchasers of the H Shares (which financing may be secured by the H Shares) in the Global Offering, proprietary trading in the H Shares, and entering into over the counter or listed derivative transactions or listed or 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. Such transactions may be carried out as bilateral agreements or trades with selected counterparties. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the H Shares, which may have a negative impact on the trading price of the H Shares. All such activities 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 Shares as their underlying securities, whether on the Hong Kong Stock Exchange or on any other stock exchange, the relevant 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 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 Shares, the liquidity or trading volume in the Shares and the volatility of the price of the 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 and other services to the Bank and its affiliates 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 86,000,000 Offer Shares (subject to reallocation as mentioned below) in Hong Kong as described below in "The Hong Kong Public Offering" below; and

(ii) the International Offering of an aggregate of 774,000,000 Offer Shares (subject to reallocation as mentioned below) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S or other available exemptions from the registration requirements of the U.S. Securities Act.

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

The Offer Shares will represent approximately 15.01% of the enlarged registered 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 16.89% of the enlarged registered share capital immediately after completion of the Global Offering and the exercise of the Over-allotment Option as set out in the paragraph headed "– 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 Hong Kong Public Offering – Reallocation" below.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

Our Bank is initially offering 86,000,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Offer Shares initially available under the Global Offering.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. The Hong Kong Offer Shares will represent approximately 1.50% of the Bank's registered share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in "– Conditions of the Hong Kong Public Offering" below.

Allocation

The total number of Offer Shares initially available under the Hong Kong Public Offering (after taking into account of any reallocation referred to below) is to be divided into two pools for allocation purposes: 43,000,000 Offer Shares for pool A and 43,000,000 Offer Shares for pool B. The Offer Shares in pool A will be allocated on an equitable basis to successful applicants who have applied for Offer Shares with an aggregate price of HK$5 million (excluding 1% brokerage, 0.0027% SFC transaction levy and 0.005% Hong Kong Stock Exchange trading fee payable) or less.

The Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of more than HK$5 million (excluding 1% brokerage, 0.0027% SFC transaction levy and 0.005% Hong Kong Stock Exchange trading fee payable) and up to the total value in pool B.

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Offer Shares in one pool (but not both pools) are undersubscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in that 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. In addition, multiple or suspected multiple applications and any application for more than 43,000,000 Offer Shares, being 50% of Offer Shares initially allocated in the Hong Kong Public Offering, are liable to be rejected.

Allocation of Offer Shares to investors under the Hong Kong Public Offering, both in relation to pool A and B, will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation in each pool may vary, depending on the number of Hong Kong Offer Shares validly applied for by each applicant. The 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.

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation. 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.

If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents (a) 15 times or more but less than 50 times, (b) 50 times or more but less than 100 times and (c) 100 times or more of the total number of Offer Shares initially available under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 258,000,000 Offer Shares (in the case of (a)), 344,000,000 Offer Shares (in the case of (b)) and 430,000,000 Offer Shares (in the case of (c)), representing 30%, 40% and 50% of the total number of Offer Shares initially available under the Global Offering, respectively (before exercise of the Over-allotment Option). In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Representatives 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 issued by the Stock Exchange, 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$3.80 (low-end of the indicative Offer Price range), up to 86,000,000 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 172,000,000 Offer Shares, representing 20% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option).

If the Hong Kong Public Offering is not fully subscribed, the Joint Representatives may reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Representatives deem appropriate.

The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Joint Representatives.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or the applicant (or any person for whose benefit he is making the application) has been or will be placed or allocated Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK$3.98 per H Share in addition to any brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in "– Pricing of the Global Offering" below, is less than the maximum price of HK$3.98 per H Share, appropriate refund payments (including the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in "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 774,000,000 International Offer Shares, representing 90% of the Offer Shares to be offered by us under the Global Offering and approximately 13.51% 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 Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in "– Pricing of the Global Offering" below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Offer Shares on the Hong Kong Stock Exchange. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Bank and its shareholders as a whole.

The Joint Representatives (for themselves and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Representatives so as to allow them to identify the relevant application under the Hong Kong Public Offering and to ensure that it is excluded from any application of Offer Shares under the Hong Kong Public Offering.

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 date of the International Underwriting Agreement until 30 days after the last date for the lodging of applications under the Hong Kong Public Offering, to require our Bank to issue and allot up to 129,000,000 additional Offer Shares, representing 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering to, among other things, cover over-allocation in the International Offering, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 2.20% 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.

PRICING OF THE GLOBAL OFFERING

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building" is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

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 11, 2019 and in any event on or before Wednesday, July 17, 2019, by agreement between the Joint Representatives (for themselves and 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$3.98 per H Share and is expected to be not less than HK$3.80 per H Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.**

The Joint Representatives (for themselves and 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 written consent of our Bank, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering.

In such a case, our Bank will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of Thursday, July 11, 2019, being the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), notice of the reduction in the number of the Offer Shares being offered under the Global Offering and/or the indicative Offer Price range and will, as soon as practicable following the decision to make such reduction, issue a supplemental prospectus updating investors of the change in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range, extend the period under which the Hong Kong Public Offering was opened for acceptance to allow potential investors sufficient time to consider their subscriptions or reconsider their submitted subscriptions, and give potential investors who had applied for the Hong Kong Offer Shares the right to withdraw their applications under the Hong Kong Public Offering. Such notice and supplemental prospectus will also include confirmation or revision, as appropriate, of the offering statistics, and the future plans and use of proceeds as currently set out in "Summary" and any other financial information which may change as a result of such reduction.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of the 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.

If the number of Offer Shares and/or the indicative Offer Price range is so reduced, applicant(s) who have already submitted an application will be notified that they are required to confirm their applications. All applicant(s) who have already submitted an application need to confirm their applications in accordance with the procedures set out in the supplemental prospectus and all unconfirmed applications will not be valid. In the absence of any notice published in relation to the reduction in the Offer Price, the Offer Price, if agreed upon with our Bank and the Joint Representatives (for themselves and on behalf of the Underwriters), 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 H Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares in the Global Offering. The Offer Shares to be offered in the International Offering and the Offer Shares to be offered in the Hong Kong Public Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Representatives.

The net proceeds of the Global Offering accruing to our Bank (after deduction of underwriting fees and estimated expenses payable by our Bank in relation to the Global Offering and assuming the Over-allotment Option is not exercised) are estimated to be approximately HK$3,306.7 million, assuming an Offer Price per H Share of HK$3.98, or approximately HK$3,154.3 million, assuming an Offer Price per H Share of HK$3.80 (or if the Over-allotment Option is exercised in full, approximately HK$3,812.1 million, assuming an Offer Price per H Share of HK$3.98, or approximately HK$3,636.9 million, assuming an Offer Price per H Share of HK$3.80).

The Offer Price for H Shares under the Global Offering is expected to be announced on Wednesday, July 17, 2019.

The indications of interest in the Global Offering, the results of applications and the basis of allocation of Offer Shares available under the Hong Kong Public Offering, are expected to be announced on Wednesday, July 17, 2019 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 at **www.hkexnews.hk** and on the website of the Bank at **http://www.jshbank.com/**.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the market price of the securities below the offer price. In Hong Kong, 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 its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of the Offer Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. Such transactions may be effected in compliance with all applicable laws, rules and regulatory requirements in place. However, there is no obligation on the Stabilizing Manager, its affiliates or any person acting for it to do this. Such stabilization, if commenced, will be conducted at the absolute discretion of the Stabilizing Manager, or its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering.

The Stabilizing Manager, its affiliates or any person acting for it may take all or any of the following stabilizing actions permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules of the SFO during the stabilization period:

(i) purchase, or agree to purchase, any of the Offer Shares or offer or attempt to do so for the sole purpose of preventing or minimizing any reduction in the market price of the Offer Shares;

(ii) in connection with any action described in paragraph (i) above:

(A) (1) over-allocate the Offer Shares; or (2) sell or agree to sell the Offer Shares so as to establish a short position in them;

(B) purchase or subscribe for or agree to purchase or subscribe for the Offer Shares pursuant to the Over-allotment Option in order to close out any position established under paragraph (A) above;

(C) sell or agree to sell any of the Offer Shares to liquidate a long position held as a result of those purchases; or

(D) offer or attempt to do anything as described in paragraph (ii)(A)(2), (ii)(B) or (ii)(C) above.

The Stabilizing Manager, its affiliates or any person acting for it may, in connection with the stabilizing action, maintain a long position in the Offer Shares, and there is no certainty regarding the extent to which and the time period for which it will maintain any such position. Investors should be warned of the possible impact of any liquidation of the long position by the Stabilizing Manager, its affiliates or any person acting for it and selling in the open market, which may include a decline in the market price of the Offer Shares.

Stabilization cannot be used to support the price of the Offer Shares for longer than the stabilization period, which begins on the day on the Listing Date and ends on the thirtieth day after the last day for lodging of applications under the Hong Kong Public Offering. The stabilization period is expected to expire on Saturday, August 10, 2019. After this date, when no further stabilization action may be taken, demand for the H Shares, and therefore their market price, could fall.

Any stabilizing action taken by the Stabilizing Manager, its affiliates 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 stabilization period. Stabilizing bids or market purchases effected in the course of the stabilization action may be made at any price at or below the Offer Price and can therefore be done at a price below the price the investor has paid in acquiring the Offer Shares.

In connection with the Global Offering, the Joint Representatives may over-allocate up to and not more than an aggregate of 129,000,000 additional H Shares (representing 15% of the number of Offer Shares initially available under the Global Offering) and cover such over-allocations by exercising the Over-allotment Option or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means.

Our Bank will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilization period.

H SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares and our Bank complies with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, July 18, 2019, it is expected that dealings in the Offer Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Thursday, July 18, 2019. Our H Shares will be traded in board lots of 1,000 H Shares each and the stock code will be 2558.

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

(i) the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in, the Offer Shares to be issued (including any additional Offer Shares that may be issued pursuant to the exercise of the Over-allotment Option) under the Global Offering; and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the H Shares on the Hong Kong Stock Exchange;

(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,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times).

If, for any reason, the Offer Price is not agreed between our Bank and the Joint Representatives (for themselves and on behalf of the Underwriters), the Global Offering will not proceed.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Bank in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in "How to Apply for Hong Kong Offer Shares". In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for 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 authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint 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 the **White Form eIPO** 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, Supervisor or chief executive officer of the Bank and/or any of its subsidiaries;
- a close associate (as defined in the Hong Kong Listing Rules) of any of the above;
- a core connected person (as defined in the Hong Kong Listing Rules) of the Bank or will become a core 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 Friday, June 28, 2019 till 12:00 noon on Thursday, July 11, 2019 from:

(i) 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

China International Capital Corporation Hong Kong Securities Limited
29/F, One International Finance Centre
1 Harbour View Street
Central, Hong Kong

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

AMTD Global Markets Limited
23/F – 25/F Nexxus Building
41 Connaught Road Central
Hong Kong

Shanxi Securities International Limited
Unit A, 29/F, Tower 1, Admiralty Centre
18 Harcourt Road
Admiralty, Hong Kong

SPDB International Capital Limited
Suites 3207-3212,
32/F, One Pacific Place
88 Queensway Hong Kong

ABCI Securities Company Limited
10/F, Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

ICBC International Securities Limited
37/F ICBC Tower
3 Garden Road
Hong Kong

Haitong International Securities Company Limited
22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Head & Shoulders Securities Limited
Room 2511, 25/F, Cosco Tower
183 Queen's Road Central
Hong Kong

I Win Securities Limited
Room 1916, Hong Kong Plaza
188 Connaught Road West
Hong Kong

(ii) any of the following branches of the receiving bank:

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
	409 Hennessy Road Branch	409-415 Hennessy Road, Wan Chai, Hong Kong
Kowloon	Chuk Yuen Estate Branch	Shop S1, Chuk Yuen Shopping Centre, Chuk Yuen South Estate, Kowloon
	Lam Tin Branch	Shop 12, 49 Kai Tin Road, Lam Tin, Kowloon
	Whampoa Garden Branch	Shop G8B, Site 1, Whampoa Garden, Hung Hom, Kowloon
	Waterloo Road Branch	Shop A2, Man Kee Mansion, 86 Waterloo Road, Kowloon
New Territories	Fo Tan Branch	No 2, 1/F Shatin Galleria, 18-24 Shan Mei Street, Fo Tan, New Territories
	East Point City Branch	Shop Nos. 217 D-E, Level 2, East Point City, 8 Chung Wa Road, Tseung Kwan O, New Territories
	Castle Peak Road (Yuen Long) Branch	162 Castle Peak Road, Yuen Long, New Territories
	Castle Peak Road (Tsuen Wan) Branch	G/F-1/F, Sin Ching Building, 201-207 Castle Peak Road (Tsuen Wan), Tsuen Wan, New Territories

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, June 28, 2019 till 12:00 noon on Thursday, July 11, 2019 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 "**BANK OF CHINA (HONG KONG) NOMINEES LIMITED – JINSHANG BANK PUBLIC OFFER**" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

Friday, June 28, 2019	–	9:00 a.m. to 5:00 p.m.
Saturday, June 29, 2019	–	9:00 a.m. to 1:00 p.m.
Tuesday, July 2, 2019	–	9:00 a.m. to 5:00 p.m.
Wednesday, July 3, 2019	–	9:00 a.m. to 5:00 p.m.
Thursday, July 4, 2019	–	9:00 a.m. to 5:00 p.m.
Friday, July 5, 2019	–	9:00 a.m. to 5:00 p.m.
Saturday, July 6, 2019	–	9:00 a.m. to 1:00 p.m.
Monday, July 8, 2019	–	9:00 a.m. to 5:00 p.m.
Tuesday, July 9, 2019	–	9:00 a.m. to 5:00 p.m.
Wednesday, July 10, 2019	–	9:00 a.m. to 5:00 p.m.
Thursday, July 11, 2019	–	9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, July 11, 2019, the last application day or such later time as described in "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 authorise 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, the PRC Company Law 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 Representatives, 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 Offer Shares under the International Offering nor participated in the International Offering;

(viii) **agree** to disclose to the Bank, our H Share Registrar, receiving bank, the Joint Representatives, 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 Representatives 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) **authorise** the Bank to place your name(s) or the name of the HKSCC Nominees, on the Bank's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Bank and/or its agents to send any 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 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 at **www.eipo.com.hk**. 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 at **www.eipo.com.hk**, you authorise 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 Service

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 Friday, June 28, 2019 until 11:30 a.m. on Thursday, July 11, 2019 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, July 11, 2019 or such later time under the "Effects of Bad Weather on the Opening of the Application Lists" in this section.

No Multiple Applications

If you apply by means of **White Form eIPO** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous) Ordinance

For the avoidance of doubt, the Bank and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Service Limited, being the designated **White Form eIPO** service provider, will contribute HK$2 for each "Jinshang Bank Co., Ltd.*" **White Form eIPO** application submitted via the website **www.eipo.com.hk** to support the funding of "Dongjiang River Source Tree Planting" project initiated by Friends of the Earth (HK).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling (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 authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to the Bank, the Joint Representatives and our H Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;

- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;

- (if 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 authorised 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;

- authorise the Bank to place HKSCC Nominees' name on the Bank's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

- agree that none of the Bank, the Joint Representatives, 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 bank, the Joint Representatives, 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 Company Law, the Special Regulations and the Articles of Association of the Bank;

- agree with the Bank, for itself and for the benefit of each 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 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 of the Bank 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) that H Shares are freely transferable by their holders;

- authorise 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 authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the 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 authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 1,000 Hong Kong Offer Shares. Instructions for more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions(1)

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Friday, June 28, 2019	–	9:00 a.m. to 8:30 p.m.
Saturday, June 29, 2019	–	8:00 a.m. to 1:00 p.m.
Tuesday, July 2, 2019	–	8:00 a.m. to 8:30 p.m.
Wednesday, July 3, 2019	–	8:00 a.m. to 8:30 p.m.
Thursday, July 4, 2019	–	8:00 a.m. to 8:30 p.m.
Friday, July 5, 2019	–	8:00 a.m. to 8:30 p.m.
Monday, July 8, 2019	–	8:00 a.m. to 8:30 p.m.
Tuesday, July 9, 2019	–	8:00 a.m. to 8:30 p.m.
Wednesday, July 10, 2019	–	8:00 a.m. to 8:30 p.m.
Thursday, July 11, 2019	–	8:00 a.m. to 12:00 noon

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, June 28, 2019 until 12:00 noon on Thursday, July 11, 2019 (24 hours daily, except on Thursday, July 11, 2019, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Thursday, July 11, 2019, the last application day or such later time as described in "Effect of Bad Weather on the Opening of the Application Lists" in this section.

Note:

(1) The 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.

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 bank, the Joint Representatives, 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 Representatives, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners 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 11, 2019.

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 the **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 Hong Kong Offer 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 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 1,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.eipo.com.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the 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 the section headed "Structure of the Global Offering – Pricing of the Global Offering".

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, July 11, 2019. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Thursday, July 11, 2019 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" of this prospectus, 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 17, 2019 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the Bank's website at **http://www.jshbank.com/** 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 **http://www.jshbank.com/** and the Hong Kong Stock Exchange's website at **www.hkexnews.hk** by no later than 9:00 a.m. on Wednesday, July 17, 2019;

- 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 17, 2019 to 12:00 midnight on Tuesday, July 23, 2019;

- by telephone enquiry line by calling +852 2862 8669 between 9:00 a.m. and 10:00 p.m. from Wednesday, July 17, 2019 to Saturday, July 20, 2019;

- in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, July 17, 2019 to Friday, July 19, 2019 at all the receiving bank 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 through the **White Form eIPO** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Bank.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the announcement 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 check 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$3.98 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 – Conditions of the Hong Kong Public Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the 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 or before Wednesday, July 17, 2019.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one 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 Offer 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:

- 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 before Wednesday, July 17, 2019. The right is reserved to retain any 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 18, 2019 provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" section in this prospectus has not been exercised. Investors who trade H Shares prior to the receipt of H Share certificates or the H Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or H Share certificate(s) from Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, July 17, 2019 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the H Share Registrar.

If you do not collect your refund cheque(s) and/or 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 or before Wednesday, July 17, 2019, 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 or before Wednesday, July 17, 2019, 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 17, 2019, 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 "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 17, 2019 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 Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road, East Wan Chai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, July 17, 2019, 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 or before Wednesday, July 17, 2019 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 dispatched 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 17, 2019, 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 17, 2019. You should check the announcement published by the Bank and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, July 17, 2019 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 17, 2019. 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 17, 2019.

15. ADMISSION OF THE 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 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 or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Hong Kong Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional 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-135, 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 JINSHANG BANK CO., LTD. AND CCB INTERNATIONAL CAPITAL LIMITED, CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED AND CMB INTERNATIONAL CAPITAL LIMITED

Introduction

We report on the historical financial information of Jinshang Bank Co., Ltd. (the "Bank") and its subsidiary (together, the "Group") set out on pages I-4 to I-135, which comprises the consolidated statements of financial position of the Group and the statements of financial position of the Bank as at 31 December 2016, 2017 and 2018 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements, for each of the years ended 31 December 2016, 2017 and 2018 (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-4 to I-135 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Bank dated 28 June 2019 (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 give 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 and the Group's financial position as at 31 December 2016, 2017 and 2018 and of the Group'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-4 have been made.

Dividends

We refer to Note 34 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

28 June 2019

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group 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 CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

Consolidated Statements of Profit or Loss and Other Comprehensive Income

(Expressed in thousands of Renminbi, unless otherwise stated)

		Years ended 31 December		
	Note	**2016**	**2017**	**2018**
Interest income		7,663,039	8,199,494	8,345,029
Interest expense		(4,147,929)	(4,184,295)	(5,166,279)
Net interest income	*3*	3,515,110	4,015,199	3,178,750
Fee and commission income		436,334	373,959	490,259
Fee and commission expense		(33,447)	(42,277)	(66,591)
Net fee and commission income	*4*	402,887	331,682	423,668
Net trading (losses)/gains	*5*	(60,483)	(59,881)	231,806
Net gains arising from investment securities	*6*	82,249	91,295	887,423
Other operating income	*7*	10,025	7,632	31,142
Operating income		3,949,788	4,385,927	4,752,789
Operating expenses	*8*	(1,707,465)	(1,680,268)	(1,750,818)
Impairment losses on assets	*11*	(905,082)	(1,203,503)	(1,535,465)
Share of profits of associates		427	18,055	33,216
Profit before tax		1,337,668	1,520,211	1,499,722
Income tax	*12*	(305,806)	(289,733)	(186,108)
Net profit for the year		1,031,862	1,230,478	1,313,614
Net profit attributable to:				
Equity shareholders of the Bank		1,026,482	1,227,027	1,310,283
Non-controlling interests		5,380	3,451	3,331
Net profit for the year		1,031,862	1,230,478	1,313,614

	Note	Years ended 31 December		
		2016	2017	2018
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
Financial assets at fair value through other comprehensive income:				
– net movement in the fair value reserve, net of tax	*33(d)*	–	–	53,648
– net movement in the impairment reserve, net of tax	*33(e)*	–	–	(21,326)
Available-for-sale financial assets:				
– net movement in the fair value reserve, net of tax	*33(d)*	(30,761)	(84,424)	–
Items that will not be reclassified to profit or loss:				
Remeasurement of net defined benefit liability, net of tax	*33(f)*	60	646	(8)
Other comprehensive income, net of tax		(30,701)	(83,778)	32,314
Total comprehensive income		1,001,161	1,146,700	1,345,928
Total comprehensive income attributable to:				
Equity shareholders of the Bank		995,781	1,143,249	1,342,597
Non-controlling interests		5,380	3,451	3,331
Total comprehensive income		1,001,161	1,146,700	1,345,928
Basic and diluted earnings per share (in RMB)	*13*	0.31	0.33	0.27

Consolidated Statements of Financial Position

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	At 31 December 2016	2017	2018
Assets				
Cash and deposits with the central bank	14	23,318,164	23,665,116	23,589,738
Deposits with banks and other financial institutions	15	843,936	858,386	792,312
Placements with banks and other financial institutions	16	–	500,000	500,106
Financial assets held under resale agreements	17	5,730,448	11,305,318	24,179,979
Loans and advances to customers	18	66,483,994	94,250,394	98,118,139
Financial investments:	19			
Financial investments at fair value through profit or loss		3,490,677	5,231,562	24,251,888
Financial investments at fair value through other comprehensive income		–	–	5,042,827
Financial investments at amortised cost		–	–	47,469,934
Available-for-sale financial assets		3,584,044	5,803,768	–
Held-to-maturity investments		11,719,590	12,962,145	–
Investments classified as receivables		54,784,808	48,190,978	–
Interest in associates	20	200,427	218,482	251,698
Property and equipment	22	630,107	549,322	746,626
Deferred tax assets	23	730,279	1,071,548	1,268,752
Other assets	24	1,869,497	2,262,772	1,035,843
Total assets		173,385,971	206,869,791	227,247,842
Liabilities and equity				
Liabilities				
Borrowing from the central bank		370,000	1,025,000	590,000
Deposits from banks and other financial institutions	26	30,021,756	11,468,650	2,513,697
Placements from banks and other financial institutions.	27	100,000	500,000	100,000
Financial assets sold under repurchase agreements	28	1,241,228	10,301,143	8,680,430
Deposits from customers	29	116,301,455	136,198,941	144,896,805
Income tax payable		710	336,225	106,219
Debt securities issued	30	11,767,340	26,163,239	51,288,864
Other liabilities	31	3,912,188	6,200,299	3,075,838
Total liabilities		163,714,677	192,193,497	211,251,853
Equity				
Share capital	32	3,268,000	3,268,000	4,868,000
Capital reserve	33(a)	908,849	5,098,849	4,423,893
Surplus reserve	33(b)	2,523,996	3,055,203	3,186,830
General reserve	33(c)	2,110,304	2,561,259	2,788,427
Fair value reserve	33(d)	(2,320)	(86,744)	(17,935)
Impairment reserve	33(e)	–	–	17,215
(Deficit)/surplus on remeasurement of net defined benefit liability	33(f)	(113)	533	525
Retained earnings	34	827,654	745,719	702,937
Total equity attributable to equity shareholders of the Bank		9,636,370	14,642,819	15,969,892
Non-controlling interests		34,924	33,475	26,097
Total equity		9,671,294	14,676,294	15,995,989
Total liabilities and equity		173,385,971	206,869,791	227,247,842

Consolidated Statements of Changes in Equity

(Expressed in thousands of Renminbi, unless otherwise stated)

		Attributable to equity shareholders of the Bank									
	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Deficit on remeasurement of net defined benefit liability	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2016		3,268,000	908,849	1,882,498	1,916,304	28,441	(173)	963,470	8,967,389	29,544	8,996,933
Changes in equity for the year:											
Net profit for the year		–	–	–	–	–	–	1,026,482	1,026,482	5,380	1,031,862
Other comprehensive income		–	–	–	–	(30,761)	60	–	(30,701)	–	(30,701)
Total comprehensive income		–	–	–	–	(30,761)	60	1,026,482	995,781	5,380	1,001,161
Appropriation of profit											
– Appropriation to surplus reserve	*33(b)*	–	–	641,498	–	–	–	(641,498)	–	–	–
– Appropriation to general reserve	*33(c)*	–	–	–	194,000	–	–	(194,000)	–	–	–
– Appropriation to shareholders	*34*	–	–	–	–	–	–	(326,800)	(326,800)	–	(326,800)
Balance at 31 December 2016		3,268,000	908,849	2,523,996	2,110,304	(2,320)	(113)	827,654	9,636,370	34,924	9,671,294
Balance at 1 January 2017		3,268,000	908,849	2,523,996	2,110,304	(2,320)	(113)	827,654	9,636,370	34,924	9,671,294
Changes in equity for the year:											
Net profit for the year		–	–	–	–	–	–	1,227,027	1,227,027	3,451	1,230,478
Other comprehensive income		–	–	–	–	(84,424)	646	–	(83,778)	–	(83,778)
Total comprehensive income		–	–	–	–	(84,424)	646	1,227,027	1,143,249	3,451	1,146,700
Capital contribution by equity shareholders	*33(a)*	–	4,190,000	–	–	–	–	–	4,190,000	–	4,190,000
Appropriation of profit											
– Appropriation to surplus reserve	*33(b)*	–	–	531,207	–	–	–	(531,207)	–	–	–
– Appropriation to general reserve	*33(c)*	–	–	–	450,955	–	–	(450,955)	–	–	–
– Appropriation to shareholders	*34*	–	–	–	–	–	–	(326,800)	(326,800)	(4,900)	(331,700)
Balance at 31 December 2017		3,268,000	5,098,849	3,055,203	2,561,259	(86,744)	533	745,719	14,642,819	33,475	14,676,294

	Note	Attributable to equity shareholders of the Bank										
		Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Impairment reserve	Surplus on remeasurement of net defined benefit liability	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 31 December 2017 . . .		3,268,000	5,098,849	3,055,203	2,561,259	(86,744)	–	533	745,719	14,642,819	33,475	14,676,294
Changes in accounting policies. . .	2(1)(a)	–	–	–	–	15,161	38,541	–	(507,470)	(453,768)	(10,709)	(464,477)
Balance at 1 January 2018		3,268,000	5,098,849	3,055,203	2,561,259	(71,583)	38,541	533	238,249	14,189,051	22,766	14,211,817
Changes in equity for the year:												
Net profit for the year.		–	–	–	–	–	–	–	1,310,283	1,310,283	3,331	1,313,614
Other comprehensive income		–	–	–	–	53,648	(21,326)	(8)	–	32,314	–	32,314
Total comprehensive income		–	–	–	–	53,648	(21,326)	(8)	1,310,283	1,342,597	3,331	1,345,928
Capital contribution by equity shareholders	33(a)	1,600,000	(674,956)	–	–	–	–	–	–	925,044	–	925,044
Appropriation of profit												
– Appropriation to surplus reserve .	33(b)	–	–	131,627	–	–	–	–	(131,627)	–	–	–
– Appropriation to general reserve.	33(c)	–	–	–	227,168	–	–	–	(227,168)	–	–	–
– Appropriation to shareholders . .	34	–	–	–	–	–	–	–	(486,800)	(486,800)	–	(486,800)
Balance at 31 December 2018 . . .		4,868,000	4,423,893	3,186,830	2,788,427	(17,935)	17,215	525	702,937	15,969,892	26,097	15,995,989

Consolidated Cash Flow Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

		Years ended 31 December		
	Note	2016	2017	2018
Cash flows from operating activities				
Profit before tax		1,337,668	1,520,211	1,499,722
Adjustments for:				
Impairment losses on assets		905,082	1,203,503	1,535,465
Depreciation and amortization		147,313	143,892	129,393
Unwinding of discount		(49,264)	(41,404)	(50,381)
Unrealized foreign exchange gains		(53)	(127)	(398)
Net losses/(gains) on disposal of property and equipment		419	(314)	138
Net trading losses/(gains)		60,536	60,008	(231,408)
Net gains on disposal of investment securities		(82,249)	(91,295)	(887,423)
Share of profits of associates		(427)	(18,055)	(33,216)
Interest expense on debts securities issued		220,872	706,787	1,674,152
		2,539,897	3,483,206	3,636,044
Changes in operating assets				
Net (increase)/decrease in deposits with the central bank		(697,571)	(650,353)	308,890
Net (increase)/decrease in deposits with banks and other financial institutions		(500,000)	–	100,000
Net increase in loans and advances to customers		(4,839,143)	(28,909,912)	(4,974,610)
Net decrease/(increase) in financial assets held under resale agreements		133,022	(5,431,130)	(12,867,635)
Net increase in other operating assets		(212,224)	(150,733)	(147,692)
		(6,115,916)	(35,142,128)	(17,581,047)
Changes in operating liabilities				
Net increase/(decrease) in borrowing from the central bank		370,000	655,000	(435,000)
Net decrease in deposits from banks and other financial institutions		(1,059,617)	(18,553,106)	(8,988,283)
Net increase/(decrease) in placements from banks and other financial institutions		2,596	400,000	(400,000)
Net (decrease)/increase in financial assets sold under repurchase agreements		(5,374,572)	9,059,915	(1,625,201)
Net increase in deposits from customers		12,524,474	19,897,486	6,977,100
Income tax paid		(326,107)	(232,779)	(479,541)
Net (decrease)/increase in other operating liabilities		(417,853)	2,284,883	(1,529,250)
		5,718,921	13,511,399	(6,480,175)
Net cash flows generated from/(used in) operating activities		2,142,902	(18,147,523)	(20,425,178)

	Note	Years ended 31 December 2016	2017	2018
Cash flows from investing activities				
Proceeds from disposal and redemption of investments		274,708,620	124,663,091	129,017,408
Gains received from investment activities		57,489	76,552	893,803
Proceeds from disposal of property and equipment and other assets		39,150	1,445	2,978
Payments on acquisition of investments		(285,923,875)	(123,885,315)	(132,684,214)
Payments on acquisition of property and equipment, intangible assets and other assets		(207,551)	(114,210)	(426,370)
Net cash flows (used in)/generated from investing activities		(11,326,167)	741,563	(3,196,395)
Cash flows from financing activities				
Proceeds from capital contribution by equity shareholders		–	4,190,000	914,000
Proceeds from debt securities issued	*37(c)*	9,761,826	24,700,000	69,425,137
Repayment of debt securities issued	*37(c)*	(300,000)	(10,304,101)	(44,350,000)
Interest paid on debt securities issued	*37(c)*	(206,668)	(706,787)	(1,665,932)
Dividends paid		(294,364)	(311,705)	(463,507)
Proceeds from other financing activities		–	51,214	11,044
Net cash flows generated from financing activities		8,960,794	17,618,621	23,870,742
Effect of foreign exchange rate changes on cash and cash equivalents		5,602	(1,612)	(284)
Net (decrease)/increase in cash and cash equivalents	*37(a)*	(216,869)	211,049	248,885
Cash and cash equivalents as at 1 January		6,959,463	6,742,594	6,953,643
Cash and cash equivalents as at 31 December	*37(b)*	6,742,594	6,953,643	7,202,528
Interest received		7,429,655	8,063,632	8,084,146
Interest paid (excluding interest expense on debt securities issued)		4,527,583	3,885,301	3,443,239

B STATEMENTS OF FINANCIAL POSITION OF THE BANK

(Expressed in thousands of Renminbi, unless otherwise stated)

		At 31 December		
	Note	**2016**	**2017**	**2018**
Assets				
Cash and deposits with the central bank	*14*	23,275,036	23,601,782	23,525,037
Deposits with banks and other financial institutions	*15*	653,934	688,782	656,067
Placements with banks and other financial institutions	*16*	–	500,000	500,106
Financial assets held under resale agreements	*17*	5,730,448	11,305,318	24,179,979
Loans and advances to customers	*18*	66,150,534	93,796,999	97,775,864
Financial investments:	*19*			
Financial investments at fair value through profit or loss		3,490,677	5,231,562	24,251,888
Financial investments at fair value through other comprehensive income		–	–	5,042,827
Financial investments at amortised cost		–	–	47,469,934
Available-for-sale financial assets		3,584,044	5,803,768	–
Held-to-maturity investments		11,719,590	12,962,145	–
Investments classified as receivables		54,784,808	48,190,978	–
Interest in associates	*20*	200,427	218,482	251,698
Investments in subsidiary	*21*	25,500	25,500	25,500
Property and equipment	*22*	627,347	547,118	744,698
Deferred tax assets	*23*	728,830	1,071,074	1,257,048
Other assets	*24*	1,865,977	2,258,856	1,032,440
Total assets		172,837,152	206,202,364	226,713,086
Liabilities and equity				
Liabilities				
Borrowing from the central bank		370,000	1,000,000	590,000
Deposits from banks and other financial institutions	*26*	30,040,630	11,606,023	2,670,616
Placements from banks and other financial institutions	*27*	100,000	500,000	100,000
Financial assets sold under repurchase agreements	*28*	1,241,228	10,301,143	8,680,430
Deposits from customers	*29*	115,791,210	135,490,471	144,237,525
Income tax payable		–	335,373	103,700
Debt securities issued	*30*	11,767,340	26,163,239	51,288,864
Other liabilities	*31*	3,901,224	6,172,637	3,073,724
Total liabilities		163,211,632	191,568,886	210,744,859
Equity				
Share capital	*32*	3,268,000	3,268,000	4,868,000
Capital reserve	*33(a)*	908,849	5,098,849	4,423,893
Surplus reserve	*33(b)*	2,523,996	3,055,203	3,186,830
General reserve	*33(c)*	2,110,304	2,554,504	2,781,004
Fair value reserve	*33(d)*	(2,320)	(86,744)	(17,935)
Impairment reserve	*33(e)*	–	–	17,215
(Deficit)/surplus on remeasurement of net defined benefit liability	*33(f)*	(113)	533	525
Retained earnings	*34*	816,804	743,133	708,695
Total equity		9,625,520	14,633,478	15,968,227
Total liabilities and equity		172,837,152	206,202,364	226,713,086

C NOTES TO THE HISTORICAL FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

1 BACKGROUND INFORMATION

Jinshang Bank Co., Ltd. (formerly Taiyuan City Commercial Bank Co., Ltd.) commenced business as a city commercial bank on 16 October 1998, according to the Approval on Commencement of Taiyuan City Commercial Bank Co., Ltd.《關於太原市商業銀行開業的批復》(YinFu [1998] No. 323) by People's Bank of China (PBoC). According to the Approval on Change of Name for Taiyuan City Commercial Bank Co., Ltd.《關於太原市商業銀行更名的批復》(YinJianFu [2008] No. 569) by the former China Banking Regulatory Commission (the former "CBRC"), Taiyuan City Commercial Bank Co., Ltd. was renamed as Jinshang Bank Co., Ltd. on 30 December 2008.

The Bank has been approved by the former CBRC (Shanxi Branch) to hold financial business permit (No. B0116H214010001) and approved by the Shanxi Provincial Administration for Industry and Commerce for the business license (credibility code: 911400007011347302). By 31 December 2018, the registered capital of the Bank was RMB4,868,000,000, with its registered office located at No. 59 Changfeng Street, Xiaodian District, Taiyuan, Shanxi Province.

The nature of the Group belongs to the financial sector, with the Group's principal activities including: absorbing public deposits; offering short-term, medium-term and long-term loans; arranging settlement of domestic accounts; handling discount of negotiable instruments; issuing financial bonds; issuing, cashing and undertaking the sale of government bonds as agents; buying and selling government bonds; undertaking inter-bank borrowing or lending; offering guarantee; handling receipts and payments and insurance business as agents; providing safe boxes services; entrusted deposit and loan business for funds used in local financial credit turnover, loan business, deposit in foreign currencies, loans in foreign currencies, remittance in foreign currencies, exchange in foreign currencies, international settlement, inter-bank lending in foreign currencies, bills acceptance and discount in foreign currencies, borrowings in foreign currencies, letters of guarantee in foreign currencies, self-operated foreign exchange transactions or on behalf of clients; credit status enquiry, consultation and authentication; spot foreign exchange settlement and sale business 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.

(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 adoption have no material impact on the financial position and the financial result of the Group.

IFRS 9 "Financial instruments"

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 Group 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 Group 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.

Disclosure

IFRS 9 requires extensive new disclosures, in particular about hedge accounting, credit risk and expected credit loss.

Transition

The Group is required to adopt IFRS 9 from 1 January 2018. The Group 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 2016 and 2017.

The following table summarises the impact of transition to IFRS 9 on fair value reserve, impairment reserve, retained earnings and non-controlling interests at 1 January 2018.

Fair value reserve	
Transferred to retained earnings	95,324
Transferred to fair value reserve	(75,109)
Related tax effect	(5,054)
Impact as at 1 January 2018	15,161
Impairment reserve	
Recognition of ECL on financial assets	51,389
Related tax effect	(12,848)
Impact as at 1 January 2018	38,541
Retained earnings	
Transferred from fair value reserve	(95,324)
Fair value movement	(167,063)
Recognition of additional ECL on:	
– financial assets	(232,528)
– credit commitments	(171,434)
Related tax effect	158,879
Impact as at 1 January 2018	(507,470)
Non-controlling interests	
Recognition of additional ECL on financial assets	(14,278)
Related tax effect	3,569
Impact as at 1 January 2018	(10,709)

The following table provides the amount of Group's financial instruments listed 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)	23,665,116	Financial assets measured at amortised cost	23,665,116
Deposits with banks and other financial institutions	Financial assets measured at amortised cost (Loans and receivables)	858,386	Financial assets measured at amortised cost	858,262
Placements with banks and other financial institutions	Financial assets measured at amortised cost (Loans and receivables)	500,000	Financial assets measured at amortised cost	499,993
Financial assets held under resale agreements	Financial assets measured at amortised cost (Loans and receivables)	11,305,318	Financial assets measured at amortised cost	11,305,317
Loans and advances to customers	Financial assets measured at amortised cost (Loans and receivables)	94,250,394	Financial assets measured at amortised cost	77,731,657
			Financial assets at fair value through other comprehensive income	16,433,791
Financial investments measured at fair value through profit or loss	Financial investments measured at fair value through profit or loss	5,231,562	Financial investments measured at fair value through profit or loss	4,391,665
			Financial assets measured at amortised cost	839,897

Financial instruments category	IAS 39 Classification under IAS 39	IAS 39 Carrying amount at 31 December 2017	IFRS 9 Classification under IFRS 9	IFRS 9 Carrying amount at 1 January 2018
Available-for-sale financial assets	Financial assets at fair value through other comprehensive income (Available-for-sale financial assets)	5,803,768	Financial assets at fair value through other comprehensive income	2,818,131
			Financial assets at fair value through profit or loss (Standards requirement)	2,266,807
			Financial assets measured at amortised cost	762,461
Held-to-maturity investments	Financial assets measured at amortised cost (Held-to-maturity investments)	12,962,145	Financial assets measured at amortised cost	12,962,100
Investments classified as receivables	Financial assets measured at amortised cost (Loans and receivables)	48,190,978	Financial assets measured at amortised cost	33,479,493
			Financial assets at fair value through profit or loss (Standards requirement)	12,230,568
			Financial assets at fair value through other comprehensive income	2,115,649
Other assets	Financial assets measured at amortised cost (Loans and receivables)	1,611,215	Financial assets measured at amortised cost	1,580,382

The following financial assets has been reclassified and remeasured on transition to IFRS 9 from IAS 39 at 1 January 2018.

	Carrying amount under IAS 39 As at 31 December 2017	Reclassification	Remeasurement	Carrying amount under IFRS 9 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	23,665,116	–	–	23,665,116
Deposits with banks and other financial institutions				
Balance presented according to IAS 39	858,386	–	–	858,386
Remeasurement: ECL allowance	–	–	(124)	(124)
Balance presented according to IFRS 9				858,262
Placements with banks and other financial institutions				
Balance presented according to IAS 39	500,000	–	–	500,000
Remeasurement: ECL allowance	–	–	(7)	(7)
Balance presented according to IFRS 9				499,993
Financial assets held under resale agreements				
Balance presented according to IAS 39	11,305,318	–	–	11,305,318
Remeasurement: ECL allowance	–	–	(1)	(1)
Balance presented according to IFRS 9				11,305,317

	Note	Carrying amount under IAS 39 As at 31 December 2017	Reclassification	Remeasurement	Carrying amount under IFRS 9 As at 1 January 2018
Loans and advances to customers					
Balance presented according to IAS 39		94,250,394	–	–	94,250,394
Less: transferred to financial assets at fair value through other comprehensive income (IFRS 9)	*A*	–	(16,201,644)	–	(16,201,644)
Remeasurement: ECL allowance		–	–	(317,093)	(317,093)
Balance presented according to IFRS 9					77,731,657
Financial assets measured at amortised cost					
Balance presented according to IAS 39		–	–	–	–
Add: transferred from held-to-maturity investments (IAS 39)	*B*	–	12,962,145	–	12,962,145
Remeasurement: ECL allowance		–	–	(45)	(45)
Add: transferred from investments classified as receivables (IAS 39)	*B*	–	33,856,889	–	33,856,889
Remeasurement: ECL allowance		–	–	(377,396)	(377,396)
Add: transferred from available-for-sale financial assets (IAS 39)		–	721,521	–	721,521
Remeasurement: from fair value to amortised cost		–	–	40,940	40,940
Add: transferred from financial investments at fair value through profit or loss (IAS 39)		–	839,897	–	839,897
Balance presented according to IFRS 9					48,043,951
Held-to-maturity investments					
Balance presented according to IAS 39		12,962,145	–	–	12,962,145
Less: transferred to amortised cost (IFRS 9)	*B*	–	(12,962,145)	–	(12,962,145)
Balance presented according to IFRS 9					–
Investments classified as receivables					
Balance presented according to IAS 39		48,190,978	–	–	48,190,978
Less: transferred to amortised cost (IFRS 9)	*B*	–	(33,856,889)	–	(33,856,889)
Less: transferred to financial assets at fair value through profit or loss (IFRS 9)	*C*	–	(12,193,625)	–	(12,193,625)
Less: transferred to financial assets at fair value through other comprehensive income (IFRS 9)	*E*	–	(2,140,464)	–	(2,140,464)
Balance presented according to IFRS 9					–
Other assets					
Balance presented according to IAS 39		1,611,215	–	–	1,611,215
Remeasurement: ECL allowance		–	–	(30,833)	(30,833)
Balance presented according to IFRS 9					1,580,382
Sub-total		193,343,552	(28,974,315)	(684,559)	163,684,678

	Note	Carrying amount under IAS 39 As at 31 December 2017	Reclassification	Remeasurement	Carrying amount under IFRS 9 As at 1 January 2018
Financial assets at fair value through profit or loss					
Balance presented according to IAS 39		5,231,562	–	–	5,231,562
Add: transferred from available-for-sale financial assets (IAS 39)	*D*	–	2,264,116	–	2,264,116
Remeasurement: from cost to fair value		–	–	2,691	2,691
Add: transferred from investments classified as receivables (IAS 39)	*C*	–	12,193,625	–	12,193,625
Remeasurement: from amortised cost to fair value		–	–	36,943	36,943
Less: transferred to amortised cost (IFRS 9)		–	(839,897)	–	(839,897)
Balance presented according to IFRS 9					18,889,040
Sub-total		5,231,562	13,617,844	39,634	18,889,040
Financial assets at fair value through other comprehensive income					
Loans and advances to customers					
Balance presented according to IAS 39		–	–	–	–
Add: transferred from loans and advances to customers (IAS 39)	*A*	–	16,201,644	–	16,201,644
Remeasurement: reversal the allowance for impairment losses under IAS 39		–	–	255,732	255,732
Remeasurement: from amortised cost to fair value		–	–	(23,585)	(23,585)
Balance presented according to IFRS 9					16,433,791
Financial assets at fair value through other comprehensive income					
Balance presented according to IAS 39		–	–	–	–
Add: transferred from available-for-sale financial assets (IAS 39)	*B*	–	2,818,131	–	2,818,131
Remeasurement: fair value movement		–	–	–	–
Add: transferred from investments classified as receivables (IAS 39)	*E*	–	2,140,464	–	2,140,464
Remeasurement: fair value movement		–	–	(24,815)	(24,815)
Balance presented according to IFRS 9					4,933,780
Available-for-sale financial assets (IAS 39)					
Balance presented according to IAS 39		5,803,768	–	–	5,803,768
Less: transferred to financial assets at fair value through other comprehensive income	*B*	–	(2,818,131)	–	(2,818,131)
Less: transferred to financial assets at fair value through profit or loss (IFRS 9)	*D*	–	(2,264,116)	–	(2,264,116)
Less: transferred to Financial investments at amortised cost		–	(721,521)	–	(721,521)
Balance presented according to IFRS 9					–
Sub-total		5,803,768	15,356,471	207,332	21,367,571

The Group has adopted IFRS 9 from 1 January 2018. There were a net increase of RMB54 million in other comprehensive income (after tax), a net decrease of RMB507 million in retained earnings (after tax) and a net decrease of RMB11 million in non-controlling interests (after tax) arising from the new requirements on classification and measurement of financial assets listed above as compared with that recognised under IAS 39.

A. Certain loans and advances to customers held by the Group 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 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.

   (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.

C. Certain debt instruments originally classified as 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. Certain available-for-sale financial assets, 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.

E. Certain investments classified as receivables held by the Group 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.

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			Provision for impairment loss IFRS 9
	As at 31 December 2017	Reclassification	Remeasurement	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	–	–	124	124
Placements with banks and other financial institutions	–	–	7	7
Financial assets held under resale agreements	–	–	1	1
Loans and advances to customers	2,683,642	–	317,093	3,000,735
Financial investments	855,116	–	377,396	1,232,512
Other assets	10,502	–	30,833	41,335
Loans and receivables (IAS 39)/Financial assets measured at FVOCI (IFRS 9)				
Loans and advances to customers at fair value through other comprehensive income	–	–	50,655	50,655
Financial investments	–	–	454	454
Held-to-maturity securities (IAS 39)/Financial assets measured at amortised cost (IFRS 9)				
Financial investments	–	–	45	45
Available-for-sale financial assets (IAS 39)/Financial assets measured at FVOCI (IFRS 9)				
Financial investments	–	–	280	280
Credit commitments	–	–	171,434	171,434

(b) ***Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018***

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing the Historical Financial Information, the Group has adopted all applicable new and revised IFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the year ended 31 December 2018 or before.

The revised and new accounting standards and interpretations but not yet effective for the year ended 31 December 2018 or before, are set out below:

	Effective for accounting period beginning on or after
Amendments to IAS 28, *Long-term interests in associates and joint ventures*	1 January 2019
Amendments to IAS 19, *Plan amendment, curtailment or settlement*	1 January 2019
Amendments to IFRS 9, *Prepayment features with negative compensation*	1 January 2019
IFRS 16, *Leases*	1 January 2019
IFRIC 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to IFRSs 2015-2017 cycle	1 January 2019
Amendments to IFRS 3, *Definition of a business*	1 January 2020
Amendments to IAS 1 and IAS 8, *Definition of material*	1 January 2020
IFRS 17, *Insurance contracts*	1 January 2021
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 Group 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 Group's result of operations and financial position, except for the following:

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 recognising a right-of-use (ROU) asset and lease liability.

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 Group has applied IFRS 16 initially at 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. The standard is expected to have no material impact on financial position and financial performance.

As set out in Note 43(c), total operating lease commitments of the Group in respect of rental payment as at 31 December 2016, 2017 and 2018 amounted to approximately RMB439 million, RMB529 million and RMB694 million, respectively. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

In addition, the nature of expenses related to those leases will now change 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.

The Historical Financial Information comprises the Bank and its subsidiary and has been prepared on a consolidated basis. Intra-group balances and transactions are eliminated in full in preparing the Historical Financial Information. The subsidiary of the Bank has adopted 31 December as its financial year end date.

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

(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 Group. 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.

Judgements 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(26).

(5) Subsidiary and non-controlling interests

Subsidiary are entities controlled by the Group. The Group 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 Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial information from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Bank, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Bank. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income between non-controlling interests and the equity shareholders of the Bank.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see Note 2(6)).

In the Bank's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(16)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(6) Associates and joint ventures

An associate is an entity in which the Group or 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 Group or 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 Group or the Bank Group'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 Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(16)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group'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 Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group'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 Group 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.

In the Bank's statement of financial position, investments in associates and joint venture are stated at cost less impairment losses, unless classified as held for sale (or included in a disposal group that is classified as held for sale).

(7) Translation of foreign currencies

When the Group 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 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 items denominated in foreign currencies are translated to RMB at the spot exchange rate at the end of each of the Relevant Periods. The resulting exchange differences are recognised in profit or loss. Non-monetary items denominated in foreign currencies that are measured at 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 foreign exchange rate at the date the fair value is determined; the exchange differences are recognised in profit or loss, except for the exchange differences arising from the translation of non-monetary financial investments which are recognised in fair value reserve.

(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 Group becomes a party to the contractual provisions of a financial instrument.

The Group 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 at 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 Group has the positive intention and ability to hold to maturity, other than

(a) those that the Group, upon initial recognition, designates at fair value through profit or loss or as available-for-sale; or

(b) those that meet the definition of loans and receivables.

Subsequent to initial recognition, held-to-maturity investments are stated at amortized cost using the effective interest method.

- Loans and receivables

Loans and receivables are non-derivative financial assets held by the Group with fixed or determinable recoverable amounts that are not quoted in an active market, other than

(a) those that the Group intends to sell immediately or in the near-term, which will be classified as held-for-trading;

(b) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or

(c) those where the Group 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 amortized 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 amortized cost using the effective interest method.

(ii) Impairment of financial assets

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed by the Group at the end of each of the Relevant Periods to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment in the financial asset represents events that occur after the initial recognition of the financial asset and have impact on the estimated future cash flows of the asset, which can be estimated reliably.

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;

– 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;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

• Loans and receivables

The Group uses two methods of assessing impairment losses: those assessed individually and those assessed on a collective basis.

Individual assessment

Loans and receivables, which are considered individually significant, are assessed individually for impairment. If there is objective evidence of impairment of loans and receivables, the amount of loss is measured as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. The impairment losses are recognised in profit or loss.

It may not be possible to identify a single, discrete event that caused the impairment but it may be possible to identify impairment through the combined effect of several events.

Cash flows relating to short-term loans and receivables are not discounted when assessing impairment loss if the difference between the estimated future cash flows and its present value is immaterial.

The calculation of the present value of the estimated future cash flows of a collateralized loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Collective assessment

Loans and receivables which are assessed collectively for impairment include individually assessed loans and receivables with no objective evidence of impairment on an individual basis, and homogeneous groups of loans and receivables which are not considered individually significant and not assessed individually. Loans and receivables are grouped for similar credit risk characteristics for collective assessment. The objective evidence of impairment mainly includes that, though it is unable to identify the decrease of cash flow of each individual asset, after collective assessment based on observable data, there is observable evidence indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets.

Homogeneous groups of loans not considered individually significant

For homogeneous groups of loans that are not considered individually significant, the Group adopts a flow rate methodology to collectively assess impairment losses. This methodology utilizes a statistical analysis of historical trends of probability of default and amount of consequential loss, as well as an adjustment of observable data that reflects the current economic conditions and judgement based on management's historical experience.

Individually assessed loans with no objective evidence of impairment on an individual basis

Loans which are individually significant and therefore have been individually assessed but for which no objective evidence of impairment can be identified, either due to the absence of any loss events or due to an inability to measure reliably the impact of loss events on future cash flows, are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. This assessment covers those loans and advances that were impaired at the end of each of the Relevant Periods but which will not be individually identified as such until sometime in the future.

The collective impairment loss is assessed after taking into account:

– historical loss experience in portfolios of similar credit risk characteristics;

– the emergence period between a loss occurring and that loss being identified; and

– the current economic and credit environments and the judgment on inherent loss based on management's historical experience.

The emergence period between a loss occurring and its identification is determined by management based on the historical experience of the markets where the Group operates.

As soon as information is available that specifically identifies objective evidence of impairment on individual assets in a portfolio, those assets are removed from the portfolio of financial assets. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment for impairment.

The Group periodically reviews and assesses the impaired loans and receivables for any subsequent changes to the estimated recoverable amounts and the resulted changes in the provision for impairment losses.

If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

When the Group determines that loans and receivables have no reasonable prospect of recovery after the Group has completed all the necessary legal or other claim proceedings, the loans and receivables are written off against its provision for impairment losses upon necessary approval. If in a subsequent period the loans and receivables written off are recovered, the amount recovered is recognised in profit or loss through impairment losses.

Rescheduled loans are loans that have been restructured due to deterioration in the borrower's financial position to the extent that the borrower is unable to repay according to the original terms and where the Group has made concessions that it would not otherwise consider under normal circumstances. Rescheduled loans are assessed individually and classified as impaired loans upon restructuring. Rescheduled loans are subject to ongoing monitoring. Once a rescheduled loan meets specific conditions, it is no longer considered as impaired.

• Held-to-maturity investments

The impairment loss is calculated based on the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognised in profit or loss.

If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

- Available-for-sale financial assets

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognised in other comprehensive income is reclassified to the profit or loss even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from equity is the difference between the acquisition cost net of any principal repayment and amortization and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

If, after an impairment loss has been recognised on available-for-sale debt securities, the fair value of the assets increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. An impairment loss recognised for an equity instrument classified as available-for-sale is not reversed through profit or loss but recognised directly in other comprehensive income.

For investments in equity instruments measured at cost, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset, and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognised in profit or loss. Impairment losses for equity instruments carried at cost are not reversed.

(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 Group 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 Group 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 Group 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 Group 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 Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group 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 Group 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 Group 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 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 statements of financial position when the Group becomes a party to the contractual provisions of a financial instrument.

A financial assets and financial liabilities 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 and subsequent measurement of financial assets

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. Financial assets are classified as:

– Financial assets measured at amortised cost, mainly including loans, advances and financial investments measured at amortised cost;

– Financial assets measured at fair value through other comprehensive income (FVTOCI), mainly including loans, advances and financial investments measured at FVTOCI; and

– Financial assets measured at fair value through profit or loss (FVTPL).

Financial assets are not reclassified subsequent to their initial recognition unless the Group 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 investment 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 Group 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 Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The business model refers to how the Group manages its financial assets in order to generate cash flows. That is, the Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. The Group 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 Group's key management personnel.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. 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 Group 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.

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 investments 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.

(iii) Classification and subsequent measurement of financial liabilities

Financial liabilities are classified as measured at FVTPL, financial guarantee liabilities or amortised cost.

– Financial liabilities at FVTPL

A financial liability is classified as 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 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.

– Financial guarantee liabilities

Financial guarantees are contracts that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee liability is measured at the higher of:

The amount of the loss allowance determined in accordance with impairment policies of financial instruments (see Notes 2(19)(i)); and

The amount initially recognised less the cumulative amount of income.

– Financial liabilities at amortised cost

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

(iv) Impairment

The Group recognises loss allowances for expected credit loss (ECL) on:

– financial assets measured at amortised cost;

– debt investments measured at FVOCI.

Financial assets measured at fair value, including debt investments or equity securities at FVTPL, and equity securities designated at FVOCI, are not subject to the ECL assessment.

Measurement of ECL

ECL is 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 Group expects to receive).

The maximum period considered when estimating ECL is the maximum contractual period (including extension options) over which the group 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 balance sheet date (or a shorter period if the expected life of the instrument is less than 12 months).

ECL on these financial assets is estimated using a provision matrix based on the Group'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 balance sheet date.

See Note 40(a) for the measurement of expected credit loss of the Group.

Presentation of allowance for ECL

ECL is remeasured at each balance sheet date 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 Group 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 investments 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 Group 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 Group'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.

(v) 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 Group 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 Group 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 Group obtains market data from the same market where the financial instrument was originated or purchased.

(vi) Derecognition of financial assets and financial liabilities

Financial asset is derecognised when one of the following conditions is met:

– the Group's contractual rights to the cash flows from the financial asset expire;

– the financial asset has been transferred and the Group transfers substantially all of the risks and rewards of ownership of the financial asset; or

– the financial asset has been transferred, although the Group 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 Group derecognises a financial liability (or part of it) only when its contractual obligation (or part of it) is extinguished.

(vii) Offsetting

Financial assets and financial liabilities are generally presented separately in the statements 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 statements of financial position when both of the following conditions are satisfied:

– the Group currently has a legally enforceable right to set off the recognised amounts;

– the Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

(10) Financial assets held under resale and repurchase agreements

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are carried in the statements of financial position at amortized 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 from the sale are reported as liabilities and are carried at amortized 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.

(11) Investment in subsidiary

In the Group's consolidated financial information, investments in subsidiary are accounted for in accordance with the principles described in Note 2(5).

In the Bank's financial information, investments in subsidiary are accounted for using the cost method. An investment in a subsidiary acquired other than through a business combination is initially recognised at actual payment cost if the Bank acquires the investment by cash. The investment is stated at cost less impairment loss (see Note 2(16)) in the statements of financial position. Except for declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid-in obtaining the investments, the Group recognises its share of the cash dividends or profit distribution declared by the investees as investment income.

(12) Property and equipment and construction in progress

Property and equipment are assets held by the Group 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(16)). Construction in progress is stated in the statements of financial position at cost less impairment loss (see Note 2(16)).

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 Group 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	10-20 years	3%	4.85%-9.70%
Vehicle	4 years	3%	24.25%
Electronic equipment	3-5 years	3%	19.40%-32.33%
Others	3-10 years	3%	9.70%-32.33%

Useful lives, residual values and depreciation methods are reviewed at least at each year-end.

(13) Operating leases

Rental payments under operating leases are recognised as part of the cost of another related asset or as expenses on a straight-line basis over the lease term. Contingent rental payments are expensed as incurred.

(14) Intangible assets

The intangible assets of the Group have finite useful lives. The intangible assets are stated at cost less accumulated amortization and impairment loss (see Note 2(16)). The cost of intangible assets less residual value and impairment loss is amortized on the straight-line method over the estimated useful lives.

The respective amortization periods for intangible assets are as follows:

Land use rights	25-50 years
Computer software	2-10 years

(15) Repossessed assets

Repossessed assets are physical assets or property rights obtained by the Group 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.

(16) 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

– intangible assets

– investment in subsidiary

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 Group also considers how management monitors the Group's operations and how management makes decisions about continuing or disposing of the Group'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 Group 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.

(17) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The defined contribution retirement plans of the Group include the social pension schemes, annuity plan, housing fund and other social insurances.

Social pension schemes

Pursuant to the relevant laws and regulations in the PRC, the Group has participated in the social pension schemes for the employees arranged by local government labour and security authorities. The Group makes contributions to the retirement schemes at the applicable rates based on the amounts stipulated by the government. The contributions are charged to the profit or loss on an accrual basis. When employees retire, the local government labour and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

Annuity plan

The Group provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to its employees' total salaries and bonuses, which are charged to profit or loss when the contributions are made.

Housing fund and other social insurances

In addition to the retirement benefits above, the Group has joined social security contributions schemes for employees pursuant to the relevant laws and regulations of the PRC. These schemes include a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes monthly contributions to the housing fund and other social insurances schemes at the applicable rates based on the amounts stipulated by the relevant government authorities. The contributions are charged to profit or loss on an accrual basis.

(ii) Supplementary retirement benefits

Early retirement plan

The Group provides early retirement benefit payments to employees who voluntarily agreed to retire early for the period from the date of early retirement to the regulated retirement date. The benefit is discounted to determine the present value based on certain assumptions. The calculation is performed by a qualified actuary using the projected unit credit method. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when incurred.

Supplementary retirement plan

The Group provides a supplementary retirement plan to its eligible employees. The Group's obligations in respect of the supplementary retirement plan are calculated by estimating the present value of the total amount of future benefits that the Group is committed to pay to the employees after their retirement. The calculation is performed by a qualified actuary using the projected unit credit method. Such obligations were discounted at the interest yield of government bonds with similar duration at the reporting date. The related service cost and net interest from the retirement plan are recognised in profit or loss, and the actuarial gains and losses arising from remeasurements are recognised in other comprehensive income.

Early retirement plan and supplementary retirement plan thereafter collectively referred to as "supplementary retirement benefits". Except for the plans mentioned above, the Group has no significant responsibilities to pay any other retirement benefits to employees.

(18) 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 Group 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 or the Group 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 or the Group 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.

(19) Financial guarantees, provisions and contingent liabilities

(i) Financial guarantees

The following accounting policies apply to the period before 1 January 2018:

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 amortized in profit or loss over the term of the guarantee as income from financial guarantees issued. Provisions are recognised in the statements of financial position as stated in Note 2(19)(ii) if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and the amount of that claim on the Group is expected to exceed the carrying amount of the deferred income.

The following accounting policies apply to the period after 1 January 2018:

In terms of off-balance sheet credit commitment, the Group 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)(iv) 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 Group 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.

(20) Fiduciary activities

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group 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 Group enters into entrusted loan agreements with customers, whereby the customers provide funding ("entrusted funds") to the Group, and the Group grants loans to third parties ("entrusted loans") under instructions of the customers. As the Group 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.

(21) Income recognition

Income is the gross inflow of economic benefit in the periods arising in the course of the Group'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 Group, the income and costs can be measured reliably.

(b) The following accounting policies apply to the period after 1 January 2018

Income is recognised when the Group 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 Group'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 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.

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the Relevant Periods. 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 Group 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 Group earns fee and commission income from a diverse range of services it provides to its customers. The fee and commission income recognised by the Group reflects the amount of consideration to which the Group 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 Group 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 Group's performance as the Group performs;
- The customer controls the service provided by the Group in the course of performance; or
- The Group does not provide service with an alternative use to the Group, and the Group has an enforceable right to payment for performance completed to date.

In other cases, the Group 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 Group will comply with the conditions attaching to them. Grants that compensate the Group 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 Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(iv) Other income

Other income is recognised on an accrual basis.

(22) Expenses recognition

(i) Interest expense

Interest expense from financial liabilities are accrued on a time proportion basis with reference to the amortized cost and the applicable effective interest rate.

(ii) Other expenses

Other expenses are recognised on an accrual basis.

(23) Dividends

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorised and declared after the end of each of the Relevant Periods are not recognised as a liability at the end of each of the Relevant Periods but disclosed separately in the notes to the Financial Information.

(24) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same Group (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 Group 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 Group or an entity related to the Group;

(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 Group of which it is a part, provides key management personnel services to the Group or to the Group'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.

(25) Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of the Group'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 nature of production processes, 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.

(26) Significant accounting estimates and judgements

The preparation of 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

The following accounting estimates and judgements apply to the period before 1 January 2018:

The Group 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, and debt investments 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 below its cost. When deciding whether there is significant or prolonged decline in fair value, the Group 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

The following accounting estimates and judgements apply to the period 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 40(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 Group in the above areas is set out in Note 40(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 Group make maximum use of market input and rely as little as possible on the Group'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 Group reviews the above estimations and assumptions periodically and makes adjustment if necessary.

(d) The classification of the held-to-maturity investments

The following accounting estimates and judgements apply to 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 Group 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 Group'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 Group 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 amortization

Investment properties, property and equipment and intangible assets are depreciated and amortized 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 amortization costs charged in each of the years ended 31 December 2016, 2017 and 2018. 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 amortization, the amount of depreciation or amortization will be revised.

(h) Determination of control over investees

Management applies its judgement to determine whether the control indicators set out in Note 2(5) indicate that the Group controls a non-principal guaranteed wealth management product and an asset management plan.

The Group acts as manager to a number of non-principal guaranteed wealth management products and asset management plans. Determining whether the Group controls such a structured entity usually focuses on the assessment of the aggregate economic interests of the Group 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 Group, the Group'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 Group 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.

For further disclosure in respect of unconsolidated non-principal guaranteed wealth management products and asset management plans in which the Group has an interest or for which it is a sponsor, see Note 35.

(i) Defined benefit plan

The Group, in accordance with the projected unit credit method, using unbiased and mutually compatible actuarial assumption to estimate related demographic variables and financial variables, measure the obligations under the defined benefit plan, recognise a defined benefit plan liability by the present value of the defined benefit plan. The Group attribute obligations under a defined benefit plan to periods of service provided by employees, with a corresponding charge to the profit or loss for the current period or the cost of a relevant asset which include the service cost and interest expense of under a defined benefit plan, changes as a result of remeasurements of the net defined benefit plan liability or asset are recognised in deficit/surplus on remeasurement of net defined benefit liability.

3 NET INTEREST INCOME

	Years ended 31 December		
	2016	**2017**	**2018**
Interest income arising from			
Deposits with the central bank	306,037	299,040	322,166
Deposits with banks and other financial institutions	15,966	27,793	30,838
Placements with banks and other financial institutions	5,528	2,740	23,128
Loans and advances to customers			
– Corporate loans and advances	2,632,628	3,207,653	3,962,958
– Personal loans	351,723	491,054	728,284
– Discounted bills	617,163	770,832	888,462
Financial assets held under resale agreements	180,597	228,927	241,520
Financial investments	3,553,397	3,171,455	2,147,673
Sub-total	7,663,039	8,199,494	8,345,029
Interest expense arising from			
Borrowing from the central bank	(1,254)	(2,797)	(4,965)
Deposits from banks and other financial institutions	(1,227,391)	(756,474)	(337,298)
Placements from banks and other financial institutions	(7,575)	(3,086)	(2,069)
Deposits from customers	(2,557,543)	(2,542,125)	(3,020,546)
Financial assets sold under repurchase agreements	(133,294)	(173,026)	(127,249)
Debt securities issued	(220,872)	(706,787)	(1,674,152)
Sub-total	(4,147,929)	(4,184,295)	(5,166,279)
Net interest income	3,515,110	4,015,199	3,178,750

Total interest income arising from financial assets that are not at fair value through profit or loss for the years ended 31 December 2016, 2017 and 2018 amounted to RMB7,478 million, RMB8,119 million and RMB8,345 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 2016, 2017 and 2018 amounted to RMB4,148 million, RMB4,184 million and RMB5,166 million, respectively.

Interest income arising from impaired loan for the years ended 31 December 2016, 2017 and 2018 amounted to RMB49 million, RMB41 million and RMB50 million, respectively.

4 NET FEE AND COMMISSION INCOME

(a) Income and expense streams:

	Years ended 31 December		
	2016	2017	2018
Fee and commission income			
Wealth management business fees	175,345	144,787	126,847
Acceptance and guarantee services fees	155,009	111,306	125,573
Agency services fees and others	88,195	79,930	152,293
Bank card services fees	8,905	12,458	38,982
Settlement and clearing fees	8,880	25,478	46,564
Sub-total	436,334	373,959	490,259
Fee and commission expense			
Settlement and clearing fees	(22,213)	(26,034)	(29,423)
Others	(11,234)	(16,243)	(37,168)
Sub-total	(33,447)	(42,277)	(66,591)
Net fee and commission income	402,887	331,682	423,668

(b) Disaggregation of income:

	Years ended 31 December					
	2016		2017		2018	
	At a point in time	Over time	At a point in time	Over time	At a point in time	Over time
Wealth management business fees	–	175,345	–	144,787	–	126,847
Acceptance and guarantee services fees	–	155,009	–	111,306	–	125,573
Agency services fees and others	88,195	–	79,930	–	152,293	–
Bank card services fees	8,905	–	12,458	–	38,982	–
Settlement and clearing fees	8,880	–	25,478	–	46,564	–
Total	105,980	330,354	117,866	256,093	237,839	252,420

5 NET TRADING (LOSSES)/GAINS

	Years ended 31 December		
	2016	2017	2018
Net (losses)/gains from debt securities	(60,793)	(74,124)	21,941
Net gains from funds	2,320	15,730	52,713
Net (losses)/gains from interbank deposits issued	(2,063)	(1,614)	1,975
Net gains from equity investments	–	–	34,235
Net gains from investment management products	–	–	120,544
Exchange gain	53	127	398
Total	(60,483)	(59,881)	231,806

6 NET GAINS ARISING FROM INVESTMENT SECURITIES

	Years ended 31 December		
	2016	2017	2018
Net gains of financial investments at fair value through profit or loss	16,220	–	881,528
Net gains of financial investments at fair value through other comprehensive income	–	–	5,895
Net gains on disposal of held-to-maturity investments	24,556	–	–
Net gains/(losses) on disposal of available-for-sale financial assets	24,376	(17,267)	–
Dividend income	11,722	97,470	–
Net gains on disposal of investments classified as receivables	5,375	11,092	–
Total	82,249	91,295	887,423

7 OTHER OPERATING INCOME

(a) Other operating income streams:

	Years ended 31 December		
	2016	2017	2018
Penalty income	4,365	2,469	1,713
Long-term unwithdrawn items income	2,587	1,732	531
Rental income	1,082	858	1,021
Government grants	726	2,241	2,129
Net gains on disposal of property and equipment	12	320	7
Others	1,253	12	25,741
Total	10,025	7,632	31,142

(b) Disaggregation other operating income:

	Years ended 31 December					
	2016		2017		2018	
	At a point in time	Over time	At a point in time	Over time	At a point in time	Over time
Penalty income	4,365	–	2,469	–	1,713	–
Long-term unwithdrawn items income	2,587	–	1,732	–	531	–
Rental income	–	1,082	–	858	–	1,021
Government grants	726	–	2,241	–	2,129	–
Net gains on disposal of property and equipment	12	–	320	–	7	–
Others	1,253	–	12	–	25,741	–
Total	8,943	1,082	6,774	858	30,121	1,021

8 OPERATING EXPENSES

	Years ended 31 December		
	2016	2017	2018
Staff costs			
– Salaries, bonuses and allowances	667,387	723,702	733,955
– Social insurance and annuity	170,968	196,786	214,841
– Housing allowances	43,842	46,611	56,119
– Staff welfares	34,063	46,600	45,617
– Employee education expenses and labour union expenses	28,962	30,192	31,463
– Supplementary retirement benefits	6,990	5,210	5,570
– Others	42,416	15,045	11,129
Sub-total	994,628	1,064,146	1,098,694
Rental and property management expenses	158,144	156,098	206,289
Depreciation and amortization	147,313	143,892	129,393
Taxes and surcharges	155,635	49,214	51,927
Listing expenses	–	–	1,935
Auditors' remuneration	1,200	1,200	1,200
Other general and administrative expenses	250,545	265,718	261,380
Total	1,707,465	1,680,268	1,750,818

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The emoluments before individual income tax in respect of the directors and supervisors who held office during the Relevant Periods are as follows:

	Year ended 31 December 2016						
	Fees	Salaries	Discretionary bonus	Sub-total	Contributions to social pension schemes	Other welfares	Total
Executive directors							
Yan Junsheng	–	226	175	401	31	164	596
Tang Yiping	–	57	42	99	8	24	131
Li Jianqiang	–	204	175	379	31	126	536
Wang Peiming	–	204	176	380	31	126	537
Fang Jian	–	204	160	364	31	113	508
Non-executive directors							
Li Shishan	–	–	–	–	–	–	–
Hu Yi	–	–	–	–	–	–	–
Li Jianming	–	–	–	–	–	–	–
Wang Jianjun	–	–	–	–	–	–	–
Gao Wenliang	–	–	–	–	–	–	–
Zhang Xiaodong	–	–	–	–	–	–	–
Independent non-executive directors							
Yang Shihua	200	–	–	200	–	–	200
Jin Haiteng	200	–	–	200	–	–	200
Sun Shihu	200	–	–	200	–	–	200
Employee representative supervisor							
Xie Liying	–	205	1,301	1,506	31	168	1,705
Lyu Fuzhen	–	102	105	207	13	56	276
Li Weiqiang	–	197	599	796	31	147	974
External supervisors							
Liu Shoubao	200	–	–	200	–	–	200
Shareholder representative supervisor							
Bi Guoyu	–	–	–	–	–	–	–
Xu Jin	–	–	–	–	–	–	–
Total	800	1,399	2,733	4,932	207	924	6,063

	Year ended 31 December 2017						
	Fees	Salaries	Discretionary bonus	Sub-total	Contributions to social pension schemes	Other welfares	Total
Executive directors							
Yan Junsheng	–	394	1,572	1,966	31	156	2,153
Tang Yiping	–	371	1,161	1,532	31	121	1,684
Li Jianqiang	–	302	919	1,221	31	125	1,377
Wang Peiming	–	302	896	1,198	31	173	1,402
Fang Jian	–	277	927	1,204	29	130	1,363
Non-executive directors							
Li Shishan	–	–	–	–	–	–	–
Hu Yi	–	–	–	–	–	–	–
Li Jianming	–	–	–	–	–	–	–
Wang Jianjun	–	–	–	–	–	–	–
Gao Wenliang	–	–	–	–	–	–	–
Zhang Xiaodong	–	–	–	–	–	–	–
Independent non-executive directors							
Yang Shihua	200	–	–	200	–	–	200
Jin Haiteng	200	–	–	200	–	–	200
Sun Shihu	200	–	–	200	–	–	200
Employee representative supervisor							
Xie Liying	–	302	919	1,221	31	155	1,407
Li Weiqiang	–	197	462	659	31	147	837
External supervisors							
Liu Shoubao	200	–	–	200	–	–	200
Shareholder representative supervisor							
Bi Guoyu	–	–	–	–	–	–	–
Xu Jin	–	–	–	–	–	–	–
Total	800	2,145	6,856	9,801	215	1,007	11,023

	Year ended 31 December 2018						
	Fees	Salaries	Discretionary bonus	Sub-total	Contributions to social pension schemes	Other welfares	Total
Executive directors							
Yan Junsheng	–	226	899	1,125	35	81	1,241
Tang Yiping	–	226	845	1,071	35	79	1,185
Li Jianqiang	–	193	810	1,003	35	76	1,114
Wang Peiming	–	204	896	1,100	35	111	1,246
Rong Changqing	–	68	51	119	24	77	220
Non-executive directors							
Li Shishan	–	–	–	–	–	–	–
Xiang Lijun	–	–	–	–	–	–	–
Liu Chenhang	–	–	–	–	–	–	–
Li Yang	–	–	–	–	–	–	–
Wang Jianjun	–	–	–	–	–	–	–
Li Jianming	–	–	–	–	–	–	–
Wang Jianjun	–	–	–	–	–	–	–
Zhang Xiaodong	–	–	–	–	–	–	–
Independent non-executive directors							
Yang Shihua	83	–	–	83	–	–	83
Jin Haiteng	200	–	–	200	–	–	200
Sun Shihu	200	–	–	200	–	–	200
Wang Liyan	117	–	–	117	–	–	117
Duan Qingshan	117	–	–	117	–	–	117
Sai Zhiyi	–	–	–	–	–	–	–
Ye Xiang	–	–	–	–	–	–	–
Employee representative supervisor							
Xie Liying	–	204	806	1,010	35	108	1,153
Li Weiqiang	–	197	632	829	35	145	1,009
Shangguan Yujiang	–	185	599	784	35	143	962
External supervisors							
Liu Shoubao	200	–	–	200	–	–	200
Wu Jun	117	–	–	117	–	–	117
Liu Min	117	–	–	117	–	–	117
Shareholder representative supervisor							
Bi Guoyu	–	–	–	–	–	–	–
Xu Jin	–	–	–	–	–	–	–
Xia Guisuo	–	–	–	–	–	–	–
Total	1,151	1,503	5,538	8,192	269	820	9,281

There was no amount paid during the Relevant Periods to the directors in connection with their retirement from employment or compensation for loss of office with the Group, or inducement to join the Group. There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the Relevant Periods.

Notes:

(a) In the meeting of the supervisor of the Bank on 8 December 2016, Xie Liying, who was employee representative supervisor in the Bank previously, was elected as Chairman of the Board of Supervisors.

(b) In the extraordinary general meeting held on 27 September 2016, Tang Yiping and Fang Jian were elected as executive directors of the Bank. Li Shishan was elected as non-executive director of the Bank.

(c) In the meeting of the labor union committee of the Bank on 19 June 2018, Shangguan Yujiang was elected as employee representative supervisor.

(d) In the Annual General Meeting held on 4 May 2018, Rong Changqing was elected as executive director, Xiang Lijun, Liu Chenhang and Li Yang were elected as non-executive directors. Wang Liyan, Duan Qingshan and Sai Zhiyi were elected as independent non-executive directors. Xia Guisuo was elected as shareholder representative supervisor. Wu Jun and Liu Min were elected as external supervisors.

(e) In the first extraordinary general meeting of the Bank on 28 February 2018, Wang Jianjun was elected as non-executive director of the Bank.

(f) In the extraordinary general meeting of the Bank on 17 December 2018, Ye Xiang was elected as independent non-executive director of the Bank.

(g) On 5 August 2016, Lyu Fuzhen resigned as supervisor and Chairman of the Board of Supervisors.

(h) On 10 November 2017, Fang Jian resigned as executive director.

(i) On 27 April 2017, Hu Yi resigned as non-executive director.

(j) On 14 August 2017, Gao Wenliang resigned as non-executive director.

(k) On 13 April 2018, Li Jianming, Wang Jianjun and Zhang Xiaodong resigned as non-executive directors. Yang Shihua resigned as independent non-executive director.

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

For the years ended 31 December 2016, 2017 and 2018, 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 2016, 2017 and 2018 are as follows:

	Years ended 31 December		
	2016	**2017**	**2018**
Salaries and other emoluments	644	745	1,049
Discretionary bonuses	11,784	12,420	11,765
Contributions to pension schemes	124	155	140
Others	465	674	552
Total	13,017	13,994	13,506

The number of these individuals whose emoluments are within the following bands is set out below:

	Years ended 31 December		
	2016	**2017**	**2018**
HKD1,500,001-2,000,000	–	–	–
HKD2,000,001-2,500,000	–	–	–
HKD2,500,001-3,000,000	3	3	2
HKD3,000,001-3,500,000	1	1	2
HKD3,500,001-4,000,000	1	–	1
HKD4,000,001-4,500,000	–	–	–
HKD4,500,001-5,000,000	–	–	–
HKD5,000,001-5,500,000	–	1	–

None of these individuals received any inducement to join or upon joining the Group or compensation for loss of office, or waived any emoluments during the Relevant Periods.

11 IMPAIRMENT LOSSES ON ASSETS

	Years ended 31 December		
	2016	2017	2018
Financial investments	15,000	448,070	(274,306)
Loans and advances to customers	883,198	907,955	1,784,849
Financial assets held under resale agreements	–	(143,740)	–
Credit commitments	–	–	12,103
Deposits with banks and other financial institutions	–	–	29
Placements with banks and other financial institutions	–	–	(6)
Others	6,884	(8,782)	12,796
Total	905,082	1,203,503	1,535,465

12 INCOME TAX EXPENSE

(a) Income tax:

		Years ended 31 December		
	Note	2016	2017	2018
Current tax		186,382	603,076	249,536
Deferred tax	*23(b)*	119,424	(313,343)	(63,428)
Total		305,806	289,733	186,108

(b) Reconciliations between income tax and accounting profit are as follows:

		Years ended 31 December		
	Note	2016	2017	2018
Profit before tax		1,337,668	1,520,211	1,499,722
Statutory tax rate		25%	25%	25%
Income tax calculated at statutory tax rate		334,417	380,053	374,931
Non-deductible expenses		20,424	11,471	11,569
Non-taxable income	*(i)*	(49,035)	(101,791)	(200,392)
Income tax		305,806	289,733	186,108

(i) The non-taxable income mainly represents the interest income arising from the PRC government bonds, and dividends from domestic enterprises.

13 BASIC AND DILUTED EARNINGS PER SHARE

		Years ended 31 December		
	Note	2016	2017	2018
Net profit attributable to equity shareholders of the Bank		1,026,482	1,227,027	1,310,283
Weighted average number of ordinary shares (in thousands)	*(a)*	3,268,000	3,674,248	4,866,430
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)		0.31	0.33	0.27

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the Relevant Periods.

(a) Weighted average number of ordinary shares (in thousands)

	Years ended 31 December		
	2016	**2017**	**2018**
Number of ordinary shares at the beginning of the year	3,268,000	3,268,000	3,268,000
Weighted average number of ordinary shares issued during the year	–	406,248	1,598,430
Weighted average number of ordinary shares	3,268,000	3,674,248	4,866,430

The Bank has received cash injection amounting to RMB4,190 million and RMB914 million from the investors to subscribe 1,313,479,624 shares and 286,520,376 shares in 2017 and 2018, respectively The Bank obtained approval from the former Shanxi Bureau of the China Banking Regulatory Commission on Approving Changes in Registered Capital of Jinshang Bank Co., Ltd. 《山西銀監局關於同意晉商銀行變更註冊資本的批復》(JinYinJianFu [2018] No. 21).

Basic earnings per share have been computed by taking into account of the aforesaid shares subscribed by the investors for the Relevant Periods.

14 CASH AND DEPOSITS WITH THE CENTRAL BANK

The Group

		At 31 December		
	Note	**2016**	**2017**	**2018**
Cash on hand		408,219	424,520	455,425
Deposits with the central bank				
– Statutory deposit reserves	*(a)*	16,808,202	17,519,131	16,843,388
– Surplus deposit reserves	*(b)*	5,990,439	5,670,737	5,865,032
– Fiscal deposits		111,304	50,728	417,581
Sub-total		22,909,945	23,240,596	23,126,001
Interests accrued		–	–	8,312
Total		23,318,164	23,665,116	23,589,738

The Bank

		At 31 December		
	Note	**2016**	**2017**	**2018**
Cash on hand		406,457	421,795	452,084
Deposits with the central bank				
– Statutory deposit reserves	*(a)*	16,767,555	17,471,568	16,791,851
– Surplus deposit reserves	*(b)*	5,989,720	5,657,691	5,855,209
– Fiscal deposits		111,304	50,728	417,581
Sub-total		22,868,579	23,179,987	23,064,641
Interests accrued		–	–	8,312
Total		23,275,036	23,601,782	23,525,037

(a) The Group places statutory deposit reserves with the PBoC in accordance with relevant regulations. As at the end of each of the Relevant Periods, the statutory deposit reserve ratios applicable to the Bank were as follows:

	At 31 December		
	2016	2017	2018
Reserve ratio for RMB deposits	14.5%	13.5%	12.0%
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. The subsidiary of the Bank are required to place statutory RMB deposits reserve at rates determined by the PBoC.

(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

The Group

	At 31 December		
	2016	2017	2018
Deposits in mainland China			
– Banks	329,430	343,185	335,439
– Other financial institutions	514,411	515,106	446,537
Sub-total	843,841	858,291	781,976
Deposits outside mainland China			
– Banks	95	95	95
Sub-total	95	95	95
Interests accrued	–	–	10,394
Less: Provision for impairment losses	–	–	(153)
Total	843,936	858,386	792,312

The Bank

	At 31 December		
	2016	2017	2018
Deposits in mainland China			
– Banks	139,428	173,581	206,794
– Other financial institutions	514,411	515,106	446,537
Sub-total	653,839	688,687	653,331
Deposits outside mainland China			
– Banks	95	95	95
Sub-total	95	95	95
Interests accrued	–	–	2,794
Less: Provision for impairment losses	–	–	(153)
Total	653,934	688,782	656,067

16 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

The Group and the Bank

	At 31 December		
	2016	**2017**	**2018**
Placements in mainland China			
– Banks	–	500,000	500,000
Sub-total	–	500,000	500,000
Interests accrued	–	–	107
Less: Provision for impairment losses	–	–	(1)
Total	–	500,000	500,106

17 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(a) Analysed by type and location of counterparty

The Group and the Bank

	At 31 December		
	2016	**2017**	**2018**
In mainland China			
– Banks	5,874,188	10,393,473	20,533,588
– Other financial institutions	–	911,845	3,639,365
Sub-total	5,874,188	11,305,318	24,172,953
Interests accrued	–	–	7,027
Less: Provision for impairment losses	(143,740)	–	(1)
Total	5,730,448	11,305,318	24,179,979

(b) Analysed by type of collateral held

The Group and the Bank

	At 31 December		
	2016	**2017**	**2018**
Securities			
– Government	1,050,000	1,968,624	4,220,635
– Policy Banks	1,400,750	1,337,676	5,037,325
– Commercial banks and other financial institutions	100,000	486,595	825,800
Sub-total	2,550,750	3,792,895	10,083,760
Bank acceptances	3,323,438	7,512,423	14,089,193
Sub-total	5,874,188	11,305,318	24,172,953
Interests accrued	–	–	7,027
Less: Provision for impairment losses	(143,740)	–	(1)
Total	5,730,448	11,305,318	24,179,979

As at 31 December 2016, 2017 and 2018 certain financial assets held under buy out resale agreements was pledged for repurchase agreements Note 25(a).

18 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

The Group

	At 31 December	
	2016	**2017**
Corporate loans and advances	46,928,812	68,054,718
Personal loans		
– Residential mortgage loans	1,051,314	6,578,200
– Personal consumption loans	4,739,687	4,495,564
– Personal business loans	931,181	1,366,142
– Credit cards	–	421,948
Sub-total	6,722,182	12,861,854
Discounted bills	14,926,650	16,273,196
Gross loans and advances to customers	68,577,644	97,189,768
Less: Provision for impairment losses		
– Individually assessed	(439,018)	(537,084)
– Collectively assessed	(1,654,632)	(2,402,290)
Total provision for impairment losses	(2,093,650)	(2,939,374)
Net loans and advances to customers	66,483,994	94,250,394

	At 31 December
	2018
Loans and advances to customers measured at amortised cost:	
Corporate loans and advances	73,928,300
Personal loans	
– Residential mortgage loans	9,403,622
– Personal consumption loans	2,921,432
– Personal business loans	1,770,471
– Credit cards	942,191
Sub-total	15,037,716
Interests accrued	497,618
Less: Provision for loans and advances to customers measured at amortised cost	(4,017,266)
Sub-total	85,446,368
Loans and advances to customers measured at fair value through other comprehensive income:	
Discounted bills	12,671,771
Net loans and advances to customers	98,118,139

The Bank

	At 31 December	
	2016	**2017**
Corporate loans and advances	46,707,040	67,813,682
Personal loans		
– Residential mortgage loans	1,051,314	6,578,200
– Personal consumption loans	4,739,687	4,495,564
– Personal business loans	809,975	1,147,285
– Credit cards	–	421,948
Sub-total	6,600,976	12,642,997
Discounted bills	14,926,650	16,273,196
Gross loans and advances to customers	68,234,666	96,729,875
Less: Provision for impairment losses		
– Individually assessed	(439,018)	(536,819)
– Collectively assessed	(1,645,114)	(2,396,057)
Total provision for impairment losses	(2,084,132)	(2,932,876)
Net loans and advances to customers	66,150,534	93,796,999

	At 31 December
	2018
Loans and advances to customers measured at amortised cost:	
Corporate loans and advances	73,687,083
Personal loans	
– Residential mortgage loans	9,403,622
– Personal consumption loans	2,921,432
– Personal business loans	1,620,880
– Credit cards	942,191
Sub-total	14,888,125
Interests accrued	495,425
Less: Provision for loans and advances to customers measured at amortised cost	(3,966,540)
Sub-total	85,104,093
Loans and advances to customers measured at fair value through other comprehensive income:	
Discounted bills	12,671,771
Net loans and advances to customers	97,775,864

(b) Loans and advances to customers (exclusive interests accrued) analysed by industry sector

The Group

	At 31 December 2016		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	19,270,545	28.10%	3,803,356
Mining	13,049,818	19.03%	692,691
Wholesale and retail trade	5,896,628	8.60%	2,113,481
Construction	2,042,504	2.98%	661,507
Real estate	1,892,445	2.76%	1,426,665
Public administration, public security and social organisations	1,566,442	2.28%	548,799
Leasing and commercial services	935,134	1.36%	257,454
Production and supply of electric power, gas and water	726,596	1.06%	333,796
Transportation, storage and postal services	588,844	0.86%	90,384
Agriculture, forestry, animal husbandry and fishery	383,419	0.56%	92,059
Education	161,300	0.24%	65,400
Others	415,137	0.60%	93,360
Sub-total of corporate loans and advances	46,928,812	68.43%	10,178,952
Personal loans	6,722,182	9.80%	1,069,978
Discounted bills	14,926,650	21.77%	14,926,650
Gross loans and advances to customers	68,577,644	100.00%	26,175,580

	At 31 December 2017		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	22,939,801	23.60%	5,423,471
Mining	15,425,369	15.88%	1,303,603
Real estate	8,695,759	8.95%	2,243,247
Wholesale and retail trade	7,367,718	7.58%	2,164,571
Leasing and commercial services	4,157,069	4.28%	931,442
Construction	3,698,121	3.81%	847,066
Public administration, public security and social organisations	2,121,577	2.18%	110,390
Transportation, storage and postal services	1,362,295	1.40%	411,025
Production and supply of electric power, gas and water	1,291,597	1.33%	261,297
Agriculture, forestry, animal husbandry and fishery	173,684	0.18%	100,975
Education	130,444	0.13%	37,944
Others	691,284	0.71%	639,676
Sub-total of corporate loans and advances	68,054,718	70.03%	14,474,707
Personal loans	12,861,854	13.23%	1,671,029
Discounted bills	16,273,196	16.74%	16,273,196
Gross loans and advances to customers	97,189,768	100.00%	32,418,932

	At 31 December 2018		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	22,243,650	21.89%	4,688,983
Mining	16,168,179	15.91%	1,153,717
Real estate	13,529,122	13.31%	2,928,519
Wholesale and retail trade	6,925,576	6.81%	2,322,794
Leasing and commercial services	4,321,747	4.25%	1,228,497
Public administration, public security and social organisations	4,082,833	4.02%	615,254
Construction	2,414,365	2.38%	828,994
Transportation, storage and postal services	1,891,880	1.86%	424,140
Production and supply of electric power, gas and water	1,656,072	1.63%	368,072
Agriculture, forestry, animal husbandry and fishery	142,180	0.14%	80,790
Education	53,297	0.05%	34,997
Others	499,399	0.48%	448,409
Sub-total of corporate loans and advances	73,928,300	72.73%	15,123,166
Personal loans	15,037,716	14.80%	2,803,002
Discounted bills	12,671,771	12.47%	12,671,771
Total loans and advances to customers	101,637,787	100.00%	30,597,939

The Bank

	At 31 December 2016		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	19,202,374	28.14%	3,803,356
Mining	13,049,818	19.12%	692,691
Wholesale and retail trade	5,808,827	8.51%	2,113,481
Construction	2,042,504	2.99%	661,507
Real estate	1,892,445	2.77%	1,426,665
Public administration, public security and social organisations	1,566,442	2.30%	548,799
Leasing and commercial services	935,134	1.37%	257,454
Production and supply of electric power, gas and water	726,596	1.06%	333,796
Transportation, storage and postal services	582,844	0.85%	90,384
Agriculture, forestry, animal husbandry and fishery	323,619	0.48%	89,059
Education	161,300	0.25%	65,400
Others	415,137	0.61%	93,360
Sub-total of corporate loans and advances	46,707,040	68.45%	10,175,952
Personal loans	6,600,976	9.67%	1,045,372
Discounted bills	14,926,650	21.88%	14,926,650
Gross loans and advances to customers	68,234,666	100.00%	26,147,974

	At 31 December 2017		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	22,854,684	23.63%	5,423,471
Mining	15,420,369	15.94%	1,303,603
Real estate	8,695,759	8.99%	2,243,247
Wholesale and retail trade	7,307,918	7.55%	2,164,571
Leasing and commercial services	4,155,069	4.30%	931,442
Construction	3,690,121	3.81%	847,066
Public administration, public security and social organisations	2,121,577	2.19%	110,390
Transportation, storage and postal services	1,339,795	1.39%	411,025
Production and supply of electric power, gas and water	1,291,597	1.34%	261,297
Education	130,444	0.13%	100,975
Agriculture, forestry, animal husbandry and fishery	115,065	0.12%	37,944
Others	691,284	0.72%	639,676
Sub-total of corporate loans and advances	67,813,682	70.11%	14,474,707
Personal loans	12,642,997	13.07%	1,657,742
Discounted bills	16,273,196	16.82%	16,273,196
Gross loans and advances to customers	96,729,875	100.00%	32,405,645

	At 31 December 2018		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	22,131,233	21.86%	4,687,883
Mining	16,168,179	15.97%	1,153,717
Real estate	13,529,122	13.36%	2,928,519
Wholesale and retail trade	6,880,276	6.80%	2,322,794
Leasing and commercial services	4,317,747	4.26%	1,228,497
Public administration, public security and social organisations	4,082,833	4.03%	615,254
Construction	2,409,865	2.38%	828,994
Transportation, storage and postal services	1,869,380	1.85%	424,140
Production and supply of electric power, gas and water	1,652,072	1.63%	368,072
Agriculture, forestry, animal husbandry and fishery	93,680	0.10%	80,790
Education	53,297	0.05%	34,997
Others	499,399	0.49%	448,409
Sub-total of corporate loans and advances	73,687,083	72.78%	15,122,066
Personal loans	14,888,125	14.70%	2,786,542
Discounted bills	12,671,771	12.52%	12,671,771
Total loans and advances to customers	101,246,979	100.00%	30,580,379

As at the end of each of the Relevant Periods and during the respective periods, detailed information of the 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:

The Group

	At 31 December 2016				
	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	236,116	(83,297)	(529,281)	(96,119)	–
Mining	571,221	(251,026)	(346,031)	(40,661)	–

	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	425,906	(146,962)	(602,306)	(178,717)	–
Mining	571,221	(254,004)	(389,932)	(46,878)	–

	At 31 December 2018					
	Credit-impaired loans and advances	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	Impairment losses charged during the year	Written-off during the year
Manufacturing	578,837	(549,809)	(478,356)	(324,061)	(580,295)	–
Mining	293,550	(399,904)	(93,523)	(201,757)	(82,597)	–
Real estate	61,130	(450,614)	(62,298)	(23,846)	(208,822)	–

The Bank

	At 31 December 2016				
	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	235,045	(83,268)	(527,419)	(94,227)	–
Mining	571,221	(251,026)	(346,031)	(40,661)	–

	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	419,506	(146,826)	(600,637)	(178,180)	–
Mining	571,221	(254,004)	(389,826)	(46,772)	–

	At 31 December 2018					
	Credit-impaired loans and advances	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	Impairment losses charged during the year	Written-off during the year
Manufacturing	576,870	(541,987)	(474,198)	(323,268)	(573,615)	–
Mining	293,550	(399,904)	(93,523)	(201,757)	(82,597)	–
Real estate	61,130	(450,614)	(62,298)	(23,846)	(208,822)	–

(c) Analysed by type of collateral

The Group

	At 31 December	
	2016	2017
Unsecured loans	1,890,357	5,109,522
Guaranteed loans	40,511,707	59,661,314
Collateralised loans	7,574,847	11,281,988
Pledged loans	18,600,733	21,136,944
Gross loans and advances to customers	68,577,644	97,189,768
Less: Provision for impairment losses		
– Individually assessed	(439,018)	(537,084)
– Collectively assessed	(1,654,632)	(2,402,290)
Total provision for impairment losses	(2,093,650)	(2,939,374)
Net loans and advances to customers	66,483,994	94,250,394

	At 31 December
	2018
Unsecured loans	7,508,058
Guaranteed loans	63,531,790
Collateralised loans	13,346,638
Pledged loans	17,251,301
Sub-total	101,637,787
Interests accrued	497,618
Gross loans and advances to customers	102,135,405
Less: Provision for loans and advances to customers measured at amortised cost	(4,017,266)
Net loans and advances to customers	98,118,139

The Bank

	At 31 December	
	2016	2017
Unsecured loans	1,890,357	5,109,522
Guaranteed loans	40,196,335	59,214,708
Collateralised loans	7,556,018	11,270,219
Pledged loans	18,591,956	21,135,426
Gross loans and advances to customers	68,234,666	96,729,875
Less: Provision for impairment losses		
– Individually assessed	(439,018)	(536,819)
– Collectively assessed	(1,645,114)	(2,396,057)
Total provision for impairment losses	(2,084,132)	(2,932,876)
Net loans and advances to customers	66,150,534	93,796,999

	At 31 December
	2018
Unsecured loans	7,508,058
Guaranteed loans	63,158,542
Collateralised loans	13,330,037
Pledged loans	17,250,342
Sub-total	101,246,979
Interests accrued	495,425
Gross loans and advances to customers	101,742,404
Less: Provision for loans and advances to customers measured at amortised cost	(3,966,540)
Net loans and advances to customers	97,775,864

(d) Overdue loans (exclusive interests accrued) analysed by overdue period

The Group

	At 31 December 2016				
	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	777	–	2,790	–	3,567
Guaranteed loans	490,544	353,752	523,213	25,994	1,393,503
Collateralised loans	29,367	10,445	12,022	–	51,834
Pledged loans	–	8,999	971	–	9,970
Total	520,688	373,196	538,996	25,994	1,458,874
As a percentage of gross loans and advances to customers	0.76%	0.54%	0.79%	0.04%	2.13%

	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	305	779	2,858	–	3,942
Guaranteed loans	512,323	284,510	625,228	326,132	1,748,193
Collateralised loans	119,850	72,352	39,873	740	232,815
Pledged loans	–	–	–	971	971
Total	632,478	357,641	667,959	327,843	1,985,921
As a percentage of gross loans and advances to customers	0.65%	0.37%	0.69%	0.33%	2.04%

	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	11,471	8,270	913	2,790	23,444
Guaranteed loans	410,971	701,745	740,538	139,023	1,992,277
Collateralised loans	229,673	113,699	85,949	8,089	437,410
Pledged loans	88,217	10,000	–	971	99,188
Total	740,332	833,714	827,400	150,873	2,552,319
As a percentage of gross loans and advances to customers	0.72%	0.82%	0.81%	0.15%	2.50%

The Bank

	At 31 December 2016				
	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	777	–	2,790	–	3,567
Guaranteed loans	487,297	347,195	523,213	25,994	1,383,699
Collateralised loans	29,367	10,266	12,021	–	51,654
Pledged loans	–	8,999	971	–	9,970
Total	517,441	366,460	538,995	25,994	1,448,890
As a percentage of gross loans and advances to customers	0.76%	0.54%	0.79%	0.03%	2.12%

	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	305	779	2,858	–	3,942
Guaranteed loans	506,172	284,510	625,181	326,132	1,741,995
Collateralised loans	119,671	72,352	39,873	740	232,636
Pledged loans	–	–	–	971	971
Total	626,148	357,641	667,912	327,843	1,979,544
As a percentage of gross loans and advances to customers	0.65%	0.37%	0.69%	0.34%	2.05%

The Bank

	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	11,471	8,270	913	2,790	23,444
Guaranteed loans	374,953	694,596	738,503	139,023	1,947,075
Collateralised loans	229,673	111,699	85,949	8,089	435,410
Pledged loans	88,217	10,000	–	971	99,188
Total	704,314	824,565	825,365	150,873	2,505,117
As a percentage of gross loans and advances to customers	0.69%	0.81%	0.81%	0.15%	2.46%

Overdue loans represent loans, of which the whole or part of the principal or interest were overdue for one day or more.

(e) Loans and advances and provision for impairment losses

The Group

	At 31 December 2016				
	Loans and advances for which provision are collectively assessed *(Note (i))*	Impaired loans and advances *(Note (ii))*			
		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	67,297,269	142,467	1,137,908	68,577,644	1.87%
Less: Provision for impairment losses	(1,610,574)	(44,058)	(439,018)	(2,093,650)	
Net loans and advances to customers	65,686,695	98,409	698,890	66,483,994	

	At 31 December 2017				
	Loans and advances for which provision are collectively assessed *(Note (i))*	Impaired loans and advances *(Note (ii))* For which provision are collectively assessed	Impaired loans and advances *(Note (ii))* 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	95,591,945	204,714	1,393,109	97,189,768	1.64%
Less: Provision for impairment losses	(2,343,157)	(59,133)	(537,084)	(2,939,374)	
Net loans and advances to customers	93,248,788	145,581	856,025	94,250,394	

	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(iii))*	Total
Total loans and advances to customers measured at amortised cost	84,420,749	3,146,125	1,896,760	89,463,634
Less: Provision for impairment losses	(2,158,195)	(776,736)	(1,082,335)	(4,017,266)
Carrying amount of loans and advances to customers measured at amortised cost	82,262,554	2,369,389	814,425	85,446,368
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	12,668,171	–	3,600	12,671,771
Total carrying amount of loans and advances to customers	94,930,725	2,369,389	818,025	98,118,139

The Bank

	At 31 December 2016				
	Loans and advances for which provision are collectively assessed *(Note (i))*	Impaired loans and advances *(Note (ii))* For which provision are collectively assessed	Impaired loans and advances *(Note (ii))* 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	66,964,276	141,755	1,128,635	68,234,666	1.86%
Less: Provision for impairment losses	(1,601,334)	(43,780)	(439,018)	(2,084,132)	
Net loans and advances to customers	65,362,942	97,975	689,617	66,150,534	

	At 31 December 2017				
	Loans and advances for which provision are collectively assessed *(Note (i))*	Impaired loans and advances *(Note (ii))*			
		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.	95,162,994	192,493	1,374,388	96,729,875	1.62%
Less: Provision for impairment losses	(2,337,096)	(58,961)	(536,819)	(2,932,876)	
Net loans and advances to customers.	92,825,898	133,532	837,569	93,796,999	

	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 (iii))*	Total
Total loans and advances to customers measured at amortised cost	84,074,950	3,110,107	1,885,576	89,070,633
Less: Provision for impairment losses	(2,135,490)	(757,325)	(1,073,725)	(3,966,540)
Carrying amount of loans and advances to customers measured at amortised cost	81,939,460	2,352,782	811,851	85,104,093
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	12,668,171	–	3,600	12,671,771
Total carrying amount of loans and advances to customers	94,607,631	2,352,782	815,451	97,775,864

Notes:

(i) Loans and advances collectively assessed for impairment bear relatively insignificant impairment losses as a proportion of the total portfolio. These loans and advances include those which are graded normal or special-mention.

(ii) Impaired loans and advances include those for which objective evidence of impairment has been identified and assessed using the following methods:

– Individually (including corporate loans and advances which are graded substandard, doubtful or loss); or

– Collectively, representing portfolios of homogeneous loans (including personal loans which are graded substandard, doubtful or loss).

(iii) 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 Group having granted to the borrower a concession that otherwise would not consider; it is probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for that financial asset because of financial difficulties; or debts overdue more than 90 days.

(iv) The definitions of the loan classifications, stated in Notes (i) and (ii) above, are set out in Note 40(a).

(f) Movements of provision for impairment losses

The Group

	Year ended 31 December 2016			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		Total
		Which are collectively assessed	Which are individually assessed	
As at 1 January	2,105,922	24,028	445,437	2,575,387
Charge for the year	–	35,647	1,342,899	1,378,546
Reversal for the year	(495,348)	–	–	(495,348)
Transfer out	–	–	(1,300,916)	(1,300,916)
Recoveries	–	–	862	862
Write-offs	–	(15,617)	–	(15,617)
Unwinding of discount	–	–	(49,264)	(49,264)
As at 31 December	1,610,574	44,058	439,018	2,093,650

	Year ended 31 December 2017			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		Total
		Which are collectively assessed	Which are individually assessed	
As at 1 January	1,610,574	44,058	439,018	2,093,650
Charge for the year	732,583	15,075	229,824	977,482
Reversal for the year	–	–	(69,527)	(69,527)
Transfer out	–	–	(22,631)	(22,631)
Recoveries	–	–	1,804	1,804
Unwinding of discount	–	–	(41,404)	(41,404)
As at 31 December	2,343,157	59,133	537,084	2,939,374

(i) For the year ended 31 December 2018, 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	2,165,296	121,422	714,017	3,000,735
Transferred:				
– to expected credit losses over the next 12 months	1,025	(1,025)	–	–
– to lifetime expected credit losses: not credit-impaired loans	(86,731)	87,378	(647)	–
– to lifetime expected credit losses: credit-impaired loans	(31,012)	(38,109)	69,121	–
Charge for the year	109,617	607,070	1,097,313	1,814,000
Transfer out	–	–	(738,176)	(738,176)
Recoveries	–	–	83	83
Write-offs	–	–	(8,995)	(8,995)
Unwinding of discount	–	–	(50,381)	(50,381)
As at 31 December	2,158,195	776,736	1,082,335	4,017,266

(ii) For the year ended 31 December 2018, movements of provision for impairment losses 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	45,968	–	4,687	50,655
(Reversal)/charge for the year	(32,864)	–	3,713	(29,151)
As at 31 December	13,104	–	8,400	21,504

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 recognized in the profit or loss.

The Bank

	Year ended 31 December 2016			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		Total
		Which are collectively assessed	Which are individually assessed	
As at 1 January	2,092,872	23,494	445,437	2,561,803
Charge for the year	–	25,903	1,342,899	1,368,802
Reversal for the year	(491,538)	–	–	(491,538)
Transfer out	–	–	(1,300,916)	(1,300,916)
Recoveries	–	–	862	862
Write-offs	–	(5,617)	–	(5,617)
Unwinding of discount	–	–	(49,264)	(49,264)
As at 31 December	1,601,334	43,780	439,018	2,084,132

	Year ended 31 December 2017			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		Total
		Which are collectively assessed	Which are individually assessed	
As at 1 January	1,601,334	43,780	439,018	2,084,132
Charge for the year	735,762	15,181	206,928	957,871
Reversal for the year	–	–	(69,527)	(69,527)
Recoveries	–	–	1,804	1,804
Unwinding of discount	–	–	(41,404)	(41,404)
As at 31 December	2,337,096	58,961	536,819	2,932,876

(i) For the year ended 31 December 2018, 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	2,154,179	116,022	694,900	2,965,101
Transferred:				
– to expected credit losses over the next 12 months	1,025	(1,025)	–	–
– to lifetime expected credit losses: not credit-impaired loans	(86,558)	87,205	(647)	–
– to lifetime expected credit losses: credit-impaired loans	(30,925)	(35,617)	66,542	–
Charge for the year	97,769	590,740	1,110,399	1,798,908
Transfer out	–	–	(738,176)	(738,176)
Recoveries	–	–	83	83
Write-offs	–	–	(8,995)	(8,995)
Unwinding of discount	–	–	(50,381)	(50,381)
As at 31 December	2,135,490	757,325	1,073,725	3,966,540

(ii) For the year ended 31 December 2018, movements of provision for impairment losses 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	45,968	–	4,687	50,655
(Reversal)/charge for the year	(32,864)	–	3,713	(29,151)
As at 31 December	13,104	–	8,400	21,504

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 recognized in the profit or loss.

(g) Disposal of loans and advances to customers

During the years ended 31 December 2016, 2017 and 2018, the Group transferred loans and advances with gross amount of RMB3,232 million, RMB424 million and RMB1,369 million respectively to independent third parties, and the transfer price was RMB1,964 million, RMB404 million and RMB634 million respectively.

During the years ended 31 December 2016, 2017 and 2018, the Bank transferred loans and advances with gross amount of RMB3,232 million, RMB354 million and RMB1,369 million respectively to independent third parties, and the transfer price was RMB1,964 million, RMB354 million and RMB634 million respectively.

During the years ended 31 December 2016, 2017 and 2018, the Group and the Bank transferred a portfolio of customer loans with gross amount of RMB2,593 million, RMB2,920 million and RMB4,288 million through the asset securitization business, and the transfer price was RMB2,593 million, RMB2,920 million and RMB4,288 million respectively.

19 FINANCIAL INVESTMENTS

The Group and the Bank

	Note	At 31 December		
		2016	2017	2018
Financial investments measured at fair value through profit or loss	*(a)*	3,490,677	5,231,562	24,251,888
Financial investments measured at fair value through other comprehensive income	*(b)*	–	–	5,042,827
Financial investments measured at amortised cost	*(c)*	–	–	47,469,934
Available-for-sale financial assets	*(d)*	3,584,044	5,803,768	–
Held-to-maturity investments	*(e)*	11,719,590	12,962,145	–
Investments classified as receivables	*(f)*	54,784,808	48,190,978	–
Total		73,579,119	72,188,453	76,764,649

(a) Financial investments measured at fair value through profit or loss

The Group and the Bank

	At 31 December		
	2016	2017	2018
Debt securities issued by the following institutions in mainland China			
– Government	–	869,891	–
– Policy banks	–	572,191	–
– Banks and other financial institutions	21,720	–	125,488
– Corporate	615,887	328,553	292,805
Sub-total	637,607	1,770,635	418,293
Unlisted	637,607	1,770,635	418,293
Interbank deposits			
– Unlisted	–	592,127	29,261
Investment funds			
– Unlisted	2,853,070	2,868,800	16,885,451
Equity investments			
– Unlisted	–	–	58,285
Investment management products			
– Unlisted	–	–	6,860,598
Total	3,490,677	5,231,562	24,251,888

Note: As at 31 December 2016, 2017 and 2018, there were no investments subject to material restrictions in the realization.

(b) Financial investments measured at fair value through other comprehensive income

The Group and the Bank

	At 31 December 2018
Debt securities issued by the following institutions in mainland China	
– Government	1,244,075
– Policy banks	488,627
– Banks and other financial institutions	197,217
– Corporate	405,190
Sub-total	2,335,109
Interests accrued	30,549
Unlisted	2,365,658
Interbank deposits	
– Unlisted	1,573,472
Investment management products	921,436
Interests accrued	31,071
– Unlisted	952,507
Equity investments	
– Unlisted	151,190
Total	5,042,827

Notes:

(i) As at 31 December 2018, there were no investments subject to material restrictions in the realization.

(ii) For the year ended 31 December 2018, 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	734	–	–	734
Charge for the year	715	–	–	715
Balance at 31 December	1,449	–	–	1,449

Provision for impairment losses 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 recognized in the profit or loss.

(c) Financial investments measured at amortised cost

The Group and the Bank

	Note	At 31 December 2018
Debt securities issued by the following institutions in mainland China	*(i)*	
– Government		15,947,699
– Policy banks		3,601,785
– Banks and other financial institutions		171,500
– Corporate		555,895
Interests accrued		287,579
Sub-total		20,564,458
Investment management products		27,507,848
Interests accrued		355,164
Sub-total		27,863,012
Less: Provision for impairment losses	*(ii)*	(957,536)
Total		47,469,934

Notes:

(i) As at 31 December 2018, certain debt securities were pledged for repurchase agreements (Note 25(a)).

(ii) For the year ended 31 December 2018, 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	519,442	315,886	397,229	1,232,557
Transfers:				
– to expected credit losses over the next 12 months	77,921	(77,921)	–	–
– to lifetime expected credit losses credit-impaired	(15,335)	(164,024)	179,359	–
Reversal for the year	(114,026)	(36,877)	(124,118)	(275,021)
Balance at 31 December	468,002	37,064	452,470	957,536

(d) Available-for-sale financial assets

The Group and the Bank

	At 31 December	
	2016	**2017**
Debt securities issued by the following institutions in mainland China		
– Government	410,411	951,426
– Policy banks	259,397	114,517
– Banks and other financial institutions	116,780	95,453
– Corporate	891,229	741,357
Sub-total	1,677,817	1,902,753
Unlisted	1,677,817	1,902,753
Equity investments		
– Unlisted	1,178,130	906,571
Interbank deposits		
– Unlisted	49,833	1,762,831
Investment funds		
– Unlisted	678,264	1,231,613
Total	3,584,044	5,803,768

Note: As at 31 December 2016 and 2017, there were no investments subject to material restrictions in the realization.

(e) Held-to-maturity investments

Analysed by type of investment and geographical location

The Group and the Bank

		At 31 December	
	Note	**2016**	**2017**
Debt securities issued by the following institutions in mainland China			
– Government		6,598,528	9,021,103
– Policy banks		4,420,062	3,670,042
– Corporate		701,000	271,000
Total	*(i)*	11,719,590	12,962,145
Unlisted		11,719,590	12,962,145
Fair value		11,500,472	12,517,375

Notes:

(i) As at 31 December 2016 and 2017, certain held-to-maturity investments were pledged as security for repurchase agreements (Note 25(a)).

(ii) During the year ended 31 December 2016 and 2017, the Group did not dispose of material held-to-maturity debt investments prior to their maturity dates.

(f) Investments classified as receivables

The Group and the Bank

	At 31 December	
	2016	**2017**
Debt securities issued by the following institutions in mainland China		
– Government	51,730	67,500
Sub-total	51,730	67,500
Unlisted	51,730	67,500
Investment management products		
– Unlisted	55,319,147	49,157,617
Total	55,370,877	49,225,117
Less: Provision for impairment losses	(586,069)	(1,034,139)
Net carrying amount	54,784,808	48,190,978

20 INTEREST IN ASSOCIATES

The Group and The Bank

		At 31 December		
	Note	**2016**	**2017**	**2018**
Interest in associates	*(a)*	200,427	218,482	251,698

Note:

(a) The following list contains the Group's associates, all of which are individually immaterial to the Bank and are unlisted corporate entities whose quoted market price is not available:

Name	**Percentages of equity/voting rights 31 December**			**Place of incorporation/ registration**	**Business sector**
	2016	**2017**	**2018**		
Jinshang Consumer Finance Co., Ltd. (Jinshang Consumer Finance)	40%	40%	40%	Shanxi, China	Consumer Finance

The following tables illustrate the aggregate information of the Group's associates that are not individually material:

	At 31 December		
	2016	2017	2018
Aggregate carrying amount of individually immaterial associates in the statements of financial position of the Bank	200,427	218,482	251,698
Aggregate amounts of the Bank's share of results of those associates			
– Profit from continuing operations	427	18,055	33,216
– Other comprehensive income	–	–	–
– Total comprehensive income	427	18,055	33,216

21 INVESTMENTS IN SUBSIDIARY

The Bank

		At 31 December		
	Note	2016	2017	2018
Qingxu Village and Township Bank (清徐晉商村鎮銀行股份有限公司)	*(a)*	25,500	25,500	25,500

Note:

(a) Qingxu Jinshang Village and Township Bank Co., Ltd (Qingxu Village and Township Bank) was incorporated on 19 January 2012 at Qingxu, Taiyuan, Shanxi Province, with registered capital of RMB50 million. The principal activities of Qingxu Village and Township Bank are the provision of corporate and retail banking services. As at 31 December 2018, the Bank holds 51% of equity interest and voting rights of Qingxu Village and Township Bank.

22 PROPERTY AND EQUIPMENT

The Group

	Premises	Office equipment	Motor vehicles	Electronic equipment	Leasehold improvement	Total
Cost						
As at 1 January 2016	545,234	27,088	15,695	274,092	337,812	1,199,921
Additions	47,164	2,705	669	42,920	456	93,914
Disposals	–	(271)	–	–	–	(271)
As at 31 December 2016	592,398	29,522	16,364	317,012	338,268	1,293,564
As at 1 January 2017	592,398	29,522	16,364	317,012	338,268	1,293,564
Additions	13,657	1,709	1,002	17,591	5,650	39,609
Disposals	(103)	(1,790)	(2,050)	(980)	–	(4,923)
As at 31 December 2017	605,952	29,441	15,316	333,623	343,918	1,328,250
As at 1 January 2018	605,952	29,441	15,316	333,623	343,918	1,328,250
Additions	205,701	6,983	212	62,560	24,837	300,293
Disposals	–	(551)	(812)	(7,877)	–	(9,240)
As at 31 December 2018	811,653	35,873	14,716	388,306	368,755	1,619,303
Accumulated depreciation						
As at 1 January 2016	(146,581)	(13,370)	(13,978)	(186,881)	(214,221)	(575,031)
Charge for the year	(26,933)	(4,411)	(860)	(51,142)	(5,344)	(88,690)
Disposals	–	264	–	–	–	264
As at 31 December 2016	(173,514)	(17,517)	(14,838)	(238,023)	(219,565)	(663,457)
As at 1 January 2017	(173,514)	(17,517)	(14,838)	(238,023)	(219,565)	(663,457)
Charge for the year	(27,019)	(4,337)	(667)	(41,395)	(45,845)	(119,263)
Disposals	101	899	1,989	803	–	3,792
As at 31 December 2017	(200,432)	(20,955)	(13,516)	(278,615)	(265,410)	(778,928)
As at 1 January 2018	(200,432)	(20,955)	(13,516)	(278,615)	(265,410)	(778,928)
Charge for the year	(27,651)	(3,976)	(464)	(30,129)	(37,731)	(99,951)
Disposals	–	488	788	4,926	–	6,202
As at 31 December 2018	(228,083)	(24,443)	(13,192)	(303,818)	(303,141)	(872,677)
Net book value						
As at 31 December 2016	418,884	12,005	1,526	78,989	118,703	630,107
As at 31 December 2017	405,520	8,486	1,800	55,008	78,508	549,322
As at 31 December 2018	583,570	11,430	1,524	84,488	65,614	746,626

The Bank

	Premises	Office equipment	Motor vehicles	Electronic equipment	Leasehold improvement	Total
Cost						
As at 1 January 2016	545,234	27,088	15,446	272,662	333,086	1,193,516
Additions	47,164	2,705	268	42,755	1,242	94,134
Disposals	–	(271)	–	–	–	(271)
As at 31 December 2016	592,398	29,522	15,714	315,417	334,328	1,287,379
As at 1 January 2017	592,398	29,522	15,714	315,417	334,328	1,287,379
Additions	13,657	1,572	1,000	17,570	5,619	39,418
Disposals	(103)	(1,790)	(2,050)	(980)	–	(4,923)
As at 31 December 2017	605,952	29,304	14,664	332,007	339,947	1,321,874
As at 1 January 2018	605,952	29,304	14,664	332,007	339,947	1,321,874
Additions	205,701	6,371	212	61,369	24,837	298,490
Disposals	–	(551)	(812)	(6,544)	–	(7,907)
As at 31 December 2018	811,653	35,124	14,064	386,832	364,784	1,612,457
Accumulated depreciation						
As at 1 January 2016	(146,581)	(13,370)	(13,901)	(185,728)	(212,707)	(572,287)
Charge for the year	(26,933)	(4,411)	(816)	(51,028)	(4,819)	(88,007)
Disposals	–	262	–	–	–	262
As at 31 December 2016	(173,514)	(17,519)	(14,717)	(236,756)	(217,526)	(660,032)
As at 1 January 2017	(173,514)	(17,519)	(14,717)	(236,756)	(217,526)	(660,032)
Charge for the year	(27,019)	(4,211)	(553)	(41,358)	(45,375)	(118,516)
Disposals	101	899	1,989	803	–	3,792
As at 31 December 2017	(200,432)	(20,831)	(13,281)	(277,311)	(262,901)	(774,756)
As at 1 January 2018	(200,432)	(20,831)	(13,281)	(277,311)	(262,901)	(774,756)
Charge for the year	(27,651)	(3,478)	(307)	(30,476)	(37,293)	(99,205)
Disposals	–	488	788	4,926	–	6,202
As at 31 December 2018	(228,083)	(23,821)	(12,800)	(302,861)	(300,194)	(867,759)
Net book value						
As at 31 December 2016	418,884	12,003	997	78,661	116,802	627,347
As at 31 December 2017	405,520	8,473	1,383	54,696	77,046	547,118
As at 31 December 2018	583,570	11,303	1,264	83,971	64,590	744,698

As at the end of each of the Relevant Periods, the net book values of premises of which title deeds were not yet finalized were RMB269 million, RMB140 million and RMB100 million, respectively. The Group is still in the progress of applying the outstanding title deeds for the above premises. The directors of the Bank are of the opinion that there would be no significant costs in obtaining the title deeds.

The net book values of premises as at the end of each of the Relevant Periods are analysed by the remaining terms of the leases as follows:

The Group and the Bank

	At 31 December		
	2016	2017	2018
Held in mainland China			
– Medium-term leases (10-50 years)	418,884	405,520	583,570

23 DEFERRED TAX ASSETS

(a) Analysed by nature

The Group

	31 December 2016		31 December 2017		31 December 2018	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets						
– Allowance for impairment losses	2,149,880	537,470	3,009,109	752,277	4,186,849	1,046,712
– Fair value changes of financial assets	7,869	1,967	147,644	36,911	–	–
– Accrued staff costs	521,770	130,443	580,579	145,145	578,848	144,712
– Others	241,691	60,399	548,860	137,215	339,541	84,885
	2,921,210	730,279	4,286,192	1,071,548	5,105,238	1,276,309
Deferred income tax liability						
– Fair value changes of financial assets	–	–	–	–	(30,229)	(7,557)
	–	–	–	–	(30,229)	(7,557)
Net balances	2,921,210	730,279	4,286,192	1,071,548	5,075,009	1,268,752

The Bank

	31 December 2016		31 December 2017		31 December 2018	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets						
– Allowance for impairment losses	2,144,084	536,021	3,007,211	751,803	4,140,030	1,035,008
– Fair value changes of financial assets	7,869	1,967	147,644	36,911	–	–
– Accrued staff costs	521,770	130,443	580,579	145,145	578,848	144,712
– Others	241,691	60,399	548,860	137,215	339,541	84,885
	2,915,414	728,830	4,284,294	1,071,074	5,058,419	1,264,605
Deferred income tax liability						
– Fair value changes of financial assets	–	–	–	–	(30,229)	(7,557)
	–	–	–	–	(30,229)	(7,557)
Net balances	2,915,414	728,830	4,284,294	1,071,074	5,028,190	1,257,048

(b) Movements of deferred tax

The Group

	Allowance for impairment losses	Accrued staff costs	Change in fair value	Others	Net balance of deferred tax assets
	Note(i)		*Note(ii)*		
1 January 2016	664,749	129,875	(16,485)	61,331	839,470
Recognised in profit or loss	(127,279)	588	8,199	(932)	(119,424)
Recognised in other comprehensive income	–	(20)	10,253	–	10,233
31 December 2016	537,470	130,443	1,967	60,399	730,279
Recognised in profit or loss	214,807	14,917	6,803	76,816	313,343
Recognised in other comprehensive income	–	(215)	28,141	–	27,926
31 December 2017	752,277	145,145	36,911	137,215	1,071,548
Changes in accounting policies	107,836	–	36,712	–	144,548
1 January 2018	860,113	145,145	73,623	137,215	1,216,096
Recognised in profit or loss	186,599	(435)	(63,297)	(52,330)	70,537
Recognised in other comprehensive income	–	2	(17,883)	–	(17,881)
31 December 2018	1,046,712	144,712	(7,557)	84,885	1,268,752

The Bank

	Allowance for impairment losses	Accrued staff costs	Change in fair value	Others	Net balance of deferred tax assets
	Note(i)		*Note(ii)*		
1 January 2016	662,032	129,802	(16,485)	61,331	836,680
Recognised in profit or loss	(126,011)	661	8,199	(932)	(118,083)
Recognised in other comprehensive income	–	(20)	10,253	–	10,233
31 December 2016	536,021	130,443	1,967	60,399	728,830
Recognised in profit or loss	215,782	14,917	6,803	76,816	314,318
Recognised in other comprehensive income	–	(215)	28,141	–	27,926
31 December 2017	751,803	145,145	36,911	137,215	1,071,074
Changes in accounting policies	100,551	–	36,712	–	137,263
1 January 2018	852,354	145,145	73,623	137,215	1,208,337
Recognised in profit or loss	182,654	(435)	(63,297)	(52,330)	66,592
Recognised in other comprehensive income	–	2	(17,883)	–	(17,881)
31 December 2018	1,035,008	144,712	(7,557)	84,885	1,257,048

Notes:

(i) The Group 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 the end of the Relevant Periods. However, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at the end of the Relevant Periods, together with write-offs which fulfill 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

The Group

	Note	At 31 December 2016	2017	2018
Interests receivables	*(a)*	949,566	1,426,198	88,201
Prepayments for acquisition of property and equipment		501,670	523,162	434,555
Intangible assets	*(b)*	103,984	115,389	139,615
Receivables from shareholders	*(c)*	51,214	–	–
Long-term deferred expenses		9,657	9,405	20,158
Repossessed assets	*(d)*	8,017	3,824	3,824
Land use rights	*(e)*	3,752	3,601	67,063
Other receivables		260,921	191,695	299,800
Sub-total		1,888,781	2,273,274	1,053,216
Less: Allowances for impairment losses		(19,284)	(10,502)	(17,373)
Total		1,869,497	2,262,772	1,035,843

The Bank

	Note	At 31 December 2016	2017	2018
Interests receivables	*(a)*	947,905	1,423,515	87,674
Prepayments for acquisition of property and equipment		501,670	523,162	434,555
Intangible assets	*(b)*	103,984	115,389	139,615
Receivables from shareholders	*(c)*	51,214	–	–
Repossessed assets	*(d)*	8,017	3,824	3,824
Long-term deferred expenses		7,898	8,172	17,282
Land use rights	*(e)*	3,752	3,601	67,063
Other receivables		260,821	191,695	299,800
Sub-total		1,885,261	2,269,358	1,049,813
Less: Allowances for impairment losses		(19,284)	(10,502)	(17,373)
Total		1,865,977	2,258,856	1,032,440

(a) Interests receivables

The Group

	At 31 December 2016	2017	2018
Interests receivables arising from:			
Financial investments	733,525	941,135	71,670
Loans and advances to customers	202,830	469,519	16,531
Others	13,211	15,544	–
Total	949,566	1,426,198	88,201

The Bank

	At 31 December 2016	2017	2018
Interests receivables arising from:			
Financial investments	733,525	941,135	71,670
Loans and advances to customers	201,169	466,836	16,004
Others	13,211	15,544	–
Total	947,905	1,423,515	87,674

As at 31 December 2018, Interest receivable only includes interest that has been due for the relevant financial instruments but not yet received at the balance sheet date. Interest on financial instruments based on the effective interest method has been reflected in the balance of corresponding financial instruments.

(b) Intangible assets

The Group and the Bank

	Computer software and system development
Cost	
As at 1 January 2016	127,784
Additions	61,806
Disposals	(19,073)
As at 31 December 2016	170,517
Additions	31,227
Disposals	–
As at 31 December 2017	201,744
Additions	47,381
Disposals	(1,640)
As at 31 December 2018	247,485
Accumulated amortization	
As at 1 January 2016	(76,176)
Additions	(9,430)
Disposals	19,073
As at 31 December 2016	(66,533)
Additions	(19,822)
Disposals	–
As at 31 December 2017	(86,355)
Additions	(23,076)
Disposals	1,561
As at 31 December 2018	(107,870)
Book value	
As at 31 December 2016	103,984
As at 31 December 2017	115,389
As at 31 December 2018	139,615

(c) Receivables from shareholders

Formerly known as Taiyuan City Commercial Bank Co., Ltd., the Bank is a local shareholding commercial bank with the Approval on Commencement of Taiyuan City Commercial Bank Co., Ltd. 《關於太原市商業銀行開業的批復》 (YinFu [1998] No. 323) by People's Bank of China (PBoC) on 16 October 1998 which was established and promoted jointly by Taiyuan Municipal Finance Bureau, and the original shareholders of 47 urban credit cooperatives in Taiyuan and Taiyuan Urban Credit Cooperative Union (太原市城市信用合作社聯合社).

At the beginning of the establishment of Taiyuan Commercial Bank, although the net assets of some of the credit cooperatives that could be converted into shares were assessed as negative, the assets were still converted into shares for the original shareholders of the credit cooperatives according to its original contribution. The difference between the assessed convertible net assets and the equity capital in Taiyuan Commercial Bank from the original shareholders of these credit cooperatives is temporarily accounted as 'amount due from shareholders' in 'other assets'.

Based on the BingCaiJin [2017] No. 78 "Approval of the Taiyuan Municipal Bureau of Finance on Approving of Covering the Historical Capital Deficiency of Jinshang Bank Co., Ltd. in Cash" (《太原市財政局關於同意以現金方式代為彌補晉商銀行歷史出資不足的批復》) issued on 23 October 2017 by Taiyuan Municipal Finance Bureau and resolution of General Meeting of the Bank on 30 November 2017, Taiyuan Municipal Finance Bureau as the originating shareholder agreed to make up for the insufficient historical contribution to the Bank in cash. Therefore, Taiyuan Financial Asset Management Co., Ltd., a wholly-owned subsidiary of Taiyuan Municipal Finance Bureau transferred RMB51 million to the Bank unconditionally. On 24 November 2017, the Bank received the aforementioned capital contribution from Taiyuan Financial Asset Management Co., Ltd.

(d) Repossessed assets

The Group and the Bank

	At 31 December		
	2016	**2017**	**2018**
Land use right and buildings	8,017	3,824	3,824
Less: impairment allowances	(8,017)	(3,824)	(3,824)
Net balances	–	–	–

(e) Land use rights

The Group and the Bank

	At 31 December		
	2016	**2017**	**2018**
Located in mainland China:			
10-50 years	3,752	3,601	67,063

25 PLEDGED ASSETS

(a) Assets pledged as collateral

	At 31 December		
	2016	2017	2018
For repurchase agreements:			
– Financial investments measured at amortised cost	1,189,626	1,905,726	6,235,125
– Discounted bills	78,032	263,176	597,662
– Financial assets held under buy out resale agreements	–	766,210	–
Total	1,267,658	2,935,112	6,832,787

Financial assets pledged by the Group as collateral for liabilities is mainly debt securities for repurchase agreements.

(b) Pledged assets received

The Group conducts resale agreements under the usual and customary terms of placements, and holds collaterals for these transactions. The Group's balance of the financial assets held under resale agreements refers to Note 17. The fair value of such collateral accepted by the Group was RMB5,774 million, RMB9,103 million and RMB24,173 million as at 31 December 2016, 2017 and 2018 respectively. These transactions were conducted under standard terms in the normal course of business.

26 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type of and location of counterparty

The Group

	At 31 December		
	2016	2017	2018
Deposits in mainland China			
– Banks	29,783,282	11,144,445	2,469,952
– Other financial institutions	238,474	324,205	10,415
Sub-total	30,021,756	11,468,650	2,480,367
Interests accrued	–	–	33,330
Total	30,021,756	11,468,650	2,513,697

The Bank

	At 31 December		
	2016	2017	2018
Deposits in mainland China			
– Banks	29,802,156	11,281,818	2,626,871
– Other financial institutions	238,474	324,205	10,415
Sub-total	30,040,630	11,606,023	2,637,286
Interests accrued	–	–	33,330
Total	30,040,630	11,606,023	2,670,616

27 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

The Group and the Bank

	At 31 December		
	2016	2017	2018
Placements in mainland China			
– Banks	100,000	500,000	100,000

28 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(a) Analysed by type and location of counterparty

The Group and the Bank

	At 31 December		
	2016	2017	2018
In mainland China			
– Banks	1,163,000	10,037,089	8,066,890
– Other financial institutions	78,228	264,054	609,052
Sub-total	1,241,228	10,301,143	8,675,942
Interests accrued	–	–	4,488
Total	1,241,228	10,301,143	8,680,430

(b) Analysed by type of collateral held

The Group and the Bank

	At 31 December		
	2016	2017	2018
Debt securities	1,163,000	3,523,130	6,168,500
Bank acceptance	78,228	6,778,013	2,507,442
Sub-total	1,241,228	10,301,143	8,675,942
Interests accrued	–	–	4,488
Total	1,241,228	10,301,143	8,680,430

29 DEPOSITS FROM CUSTOMERS

The Group

	At 31 December		
	2016	2017	2018
Demand deposits			
– Corporate customers	20,718,385	41,610,666	36,977,376
– Individual customers	7,779,036	9,536,048	10,878,479
Sub-total	28,497,421	51,146,714	47,855,855
Time deposits			
– Corporate customers	49,826,710	35,410,961	35,037,004
– Individual customers	28,202,025	39,189,893	47,071,660
Sub-total	78,028,735	74,600,854	82,108,664
Pledged deposits			
– Acceptances	7,792,096	6,909,410	10,095,652
– Letters of credit and guarantees	33,984	313,142	284,603
– Letters of guarantees	–	–	40,989
– Others	1,824,132	3,071,313	2,670,192
Sub-total	9,650,212	10,293,865	13,091,436
Fiscal deposits	20,471	3,113	–
Inward and outward remittances	104,616	154,395	120,086
Interests accrued	–	–	1,720,764
Total	116,301,455	136,198,941	144,896,805

The Bank

	At 31 December		
	2016	2017	2018
Demand deposits			
– Corporate customers	20,705,502	41,576,977	36,973,480
– Individual customers	7,769,185	9,442,164	10,869,322
Sub-total	28,474,687	51,019,141	47,842,802
Time deposits			
– Corporate customers	49,816,385	35,405,870	35,037,004
– Individual customers	27,724,839	38,614,087	46,441,054
Sub-total	77,541,224	74,019,957	81,478,058
Pledged deposits			
– Acceptances	7,792,096	6,909,410	10,095,652
– Letters of credit and guarantees	33,984	313,142	284,603
– Letters of guarantees	–	–	40,989
– Others	1,824,132	3,071,313	2,670,192
Sub-total	9,650,212	10,293,865	13,091,436
Fiscal deposits	20,471	3,113	–
Inward and outward remittances	104,616	154,395	119,568
Interests accrued	–	–	1,705,661
Total	115,791,210	135,490,471	144,237,525

30 DEBT SECURITIES ISSUED

The Group and the Bank

	Note	At 31 December 2016	2017	2018
Interbank deposits issued	*(a)*	9,773,183	24,168,619	44,245,015
Tier-two capital debts issued	*(b)*	1,994,157	1,994,620	1,995,112
Financial bonds issued	*(c)*	–	–	4,998,249
Sub-total		11,767,340	26,163,239	51,238,376
Interests accrued		–	–	50,488
Total		11,767,340	26,163,239	51,288,864

Notes:

(a) Interbank deposit issued

(i) In 2016, the Bank issued a number of certificates of interbank deposit with total nominal amount of RMB13,880 million and duration between 1 to 12 months. The coupon interest rates ranged from 2.70% to 5.30% per annum.

(ii) In 2017, the Bank issued a number of certificates of interbank deposit with total nominal amount of RMB52,230 million and duration between 1 to 12 months. The coupon interest rates ranged from 4.10% to 5.55% per annum.

(iii) In 2018, the Bank issued a number of certificates of interbank deposit with total nominal amount of RMB64,780 million and duration between 1 to 12 months. The coupon interest rates ranged from 3.30% to 5.30% per annum.

(iv) As at 31 December 2016, 2017 and 2018, the fair value of interbank deposits issued was RMB9,676 million, RMB23,943 million and RMB43,738 million, respectively.

(b) Tier-two capital debts issued

(i) The Bank issued 10-year fixed interest rate tier-two capital debts with face value of RMB2,000 million on 19 August 2015. The coupon interest rate per annum is 5.80%. The Bank had an option to redeem the bonds at the end of the fifth year.

(ii) As at 31 December 2016, 2017 and 2018, the fair value of the tier-two capital debts issued was RMB2,059 million, RMB1,996 million and RMB2,034 million, respectively.

(c) Financial bonds issued

(i) In December 2018, the Bank issued three-year financial bonds with face value of RMB5,000 million. The coupon interest rate per annum is 4.00%.

(ii) As at 31 December 2018, the fair value of financial bonds issued was RMB4,986 million.

31 OTHER LIABILITIES

The Group

	Note	At 31 December 2016	2017	2018
Interests payable	*(a)*	2,112,005	1,746,640	–
Payment and collection clearance accounts		696,419	398,380	1,512,442
Accrued staff cost	*(b)*	560,275	624,755	631,534
Dividend payable		107,875	127,871	151,164
Dormant accounts		24,470	14,812	21,013
Other taxes payable		11,263	90,024	86,836
Contract liabilities	*(c)*	–	–	45,249
Provisions	*(d)*	–	–	183,537
Others	*(e)*	399,881	3,197,817	444,063
Total		3,912,188	6,200,299	3,075,838

The Bank

	Note	At 31 December 2016	2017	2018
Interests payable	*(a)*	2,102,104	1,733,846	–
Payment and collection clearance accounts		696,419	398,380	1,512,442
Accrued staff cost	*(b)*	559,682	623,688	630,672
Dividend payable		107,875	127,871	151,164
Dormant accounts		24,470	14,511	21,012
Other taxes payable		10,861	89,052	86,244
Contract liabilities	*(c)*	–	–	45,249
Provisions	*(d)*	–	–	183,537
Others	*(e)*	399,813	3,185,289	443,404
Total		3,901,224	6,172,637	3,073,724

(a) Interests payable

The Group

	At 31 December 2016	2017	2018
Interests payable arising from:			
Deposits from customers	1,929,295	1,614,807	–
Deposits from banks and other financial institutions	137,178	85,109	–
Debts securities issued	42,268	42,268	–
Others	3,264	4,456	–
Total	2,112,005	1,746,640	–

The Bank

	At 31 December		
	2016	2017	2018
Interests payable arising from:			
Deposits from customers	1,919,394	1,602,013	–
Deposits from banks and other financial institutions	137,178	85,109	–
Debts securities issued	42,268	42,268	–
Others	3,264	4,456	–
Total	2,102,104	1,733,846	–

As at 31 December 2018, Interest on financial instruments based on the effective interest method has been reflected in the balance of corresponding financial instruments.

(b) Accrued staff cost

The Group

		At 31 December		
	Note	2016	2017	2018
Salary, bonuses and allowances payable		330,406	387,515	415,861
Supplementary retirement benefits payable	*(i)*	76,503	57,717	49,035
Pension and annuity payable		59,983	92,182	77,116
Other social insurance payable		41,573	27,879	25,619
Housing fund payable		18,183	17,913	13,009
Others		33,627	41,549	50,894
Total		560,275	624,755	631,534

The Bank

		At 31 December		
	Note	2016	2017	2018
Salary, bonuses and allowances payable		329,815	386,744	415,488
Supplementary retirement benefits payable	*(i)*	76,503	57,717	49,035
Pension and annuity payable		59,984	91,996	76,830
Other social insurance payable		41,570	27,784	25,421
Housing fund payable		18,183	17,898	13,004
Others		33,627	41,549	50,894
Total		559,682	623,688	630,672

Supplementary retirement benefits

The supplementary retirement benefits of the Group include early retirement plan and supplementary retirement plan. The early retirement plan is provided to employees who voluntarily agreed to retire before the retirement age during the period from the date of early retirement to the statutory retirement date. The supplementary retirement plan is provided to the Group's eligible employees.

(i) The balances of supplementary retirement benefits of the Group are as follows:

	At 31 December		
	2016	2017	2018
Present value of supplementary retirement benefits	76,503	57,717	49,035

(ii) The movements of supplementary retirement benefits of the Group are as follows:

	At 31 December		
	2016	2017	2018
As at 1 January	97,823	76,503	57,717
Benefits paid during the year	(30,310)	(24,895)	(15,892)
Defined benefit cost recognised in profit or loss	9,070	6,970	7,200
Defined benefit cost recognised in other comprehensive income	(80)	(861)	10
As at 31 December	76,503	57,717	49,035

(iii) Principal actuarial assumptions of the Group are as follows:

Early retirement plan

	At 31 December		
	2016	2017	2018
Discount rate	2.75%	3.75%	3.00%
Mortality	*Note(a)*	*Note(a)*	*Note(a)*
Retired age			
Male	60	60	60
Female	55	55	55
Annual increase rate of living expenses, social insurance and housing fund for existing retirees	7.00%	7.00%	7.00%
Annual increase rate of other allowance for existing retirees	4.50%	4.50%	4.50%

Supplementary retirement plan

	At 31 December		
	2016	2017	2018
Discount rate	3.25%	4.00%	3.50%
Mortality	*Note(a)*	*Note(a)*	*Note(a)*
Turnover rate	0.00%	0.00%	0.00%
Retired age			
Male	60	60	60
Female	55	55	55

Note:

(a) As at 31 December 2016, mortality assumptions are based on China Life Insurance Annuity Table (2000-2003) in China Life Insurance Mortality Table compiled by People's Life Insurance Company of China (PLICC). As at 31 December 2017 and 2018, mortality assumptions are based on China Life Insurance Annuity Table (2010-2013) in China Life Insurance Mortality Table compiled by PLICC, which are published historical statistics in China.

(c) Contract liabilities

As at 31 December 2018, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is RMB45 million. This amount represents income expected to be recognised in the future from acceptance and guarantee services. The Group will recognise the expected income in future as the services are provided.

(d) Provisions

	Note	At 31 December 2018
Provision for credit commitments	*(i)*	183,537

(i) Year ended 31 December 2018, movements of provisions for credit commitments 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	169,235	476	1,723	171,434
Transfers				
– to expected credit losses over the next 12 months	200	(200)	–	–
– to lifetime expected credit losses not credit-impaired	(11)	11	–	–
– to lifetime expected credit losses credit-impaired	(9)	(64)	73	–
Charge for the year	(1,080)	12,059	1,124	12,103
Balance at 31 December	168,335	12,282	2,920	183,537

(e) Others

As at 31 December 2017, others mainly included entrusted funds that were received but not yet distributed by the Bank amounted to RMB2,997 million.

32 SHARE CAPITAL

Authorised and issued share capital

		At 31 December		
	Note	2016	2017	2018
Number of shares authorised, issued and fully paid at par value of RMB1 each	*(a)*	3,268,000	3,268,000	4,868,000

(a) According to the Approval from former Shanxi Bureau of the China Banking Regulatory Commission on the Capital Contribution Plan of Jinshang Bank Co., Ltd. 《山西銀監局關於晉商銀行增資擴股方案的批復》 (JinYinJianFu [2017] No. 172), the Resolution on Implementation of Capital Contribution Plan of Jinshang Bank Co., Ltd. 《關於晉商銀行股份有限公司2017年度增資擴股方案實施情況的決議》 approved on the second Extraordinary General Meeting of the Bank on 30 August 2017 and revised articles of association, the Bank issued new shares to investors at a price of RMB3.19 with no more than 1,600 million shares, which were subscribed by 11 investors. The Bank has received cash injection from the investors amounting to RMB4,190 million (1,313,479,624 shares) and RMB914 million (286,520,376 shares) in 2017 and 2018, respectively. All of the newly registered capital received in cash. On 25 January 2018, the Bank obtained approval from the former Shanxi Bureau of the China Banking Regulatory Commission on Approving Changes in Registered Capital of Jinshang Bank Co., Ltd. 《山西銀監局關於同意晉商銀行變更註冊資本的批復》(JinYinJianFu [2018] No. 21). On 28 February 2018, the Bank obtained the business license after changing the registered capital.

33 RESERVES

(a) Capital reserve

The Group and the Bank

	At 31 December		
	2016	**2017**	**2018**
Share premium	860,849	860,849	4,364,849
Other capital reserve *(Note 32(a))*	48,000	4,238,000	59,044
Total	908,849	5,098,849	4,423,893

(b) Surplus reserve

The surplus reserve at the end of each of the Relevant Periods 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 RMB641 million, RMB531 million and RMB132 million to the surplus reserve for 2016, 2017 and 2018, respectively.

The Bank may also appropriate discretionary surplus reserve in accordance with the resolution of the shareholders.

(c) 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 RMB2,110 million, RMB2,555 million and RMB2,781 million as at 31 December 2016, 2017 and 2018, respectively.

(d) Fair value reserve

The Group and the Bank

	Year ended 31 December		
	2016	**2017**	**2018**
As at 1 January	28,441	(2,320)	(71,583)
Changes in fair value recognised in other comprehensive income	(24,425)	(115,976)	55,950
Transfer to profit or loss upon disposal	(16,589)	3,411	15,581
Less: deferred tax	10,253	28,141	(17,883)
As at 31 December	(2,320)	(86,744)	(17,935)

(e) Impairment reserve

The Group and the Bank

	Year ended 31 December
	2018
As at 1 January	38,541
Impairment losses recognised in other comprehensive income	(28,435)
Less: deferred tax	7,109
As at 31 December	17,215

(f) (Deficit)/Surplus on remeasurement of net defined benefit liability

(Deficit)/Surplus on remeasurement of net defined benefit liability represents actuarial gains or losses, net of tax, from remeasuring the net defined benefit liability.

The Group and the Bank

	Year ended 31 December		
	2016	**2017**	**2018**
As at 1 January	(173)	(113)	533
Changes in fair value recognised in other comprehensive income	80	861	(10)
Less: deferred tax	(20)	(215)	2
As at 31 December	(113)	533	525

34 RETAINED EARNINGS

(a) Appropriation of profits

In accordance with the resolution at the Bank's Annual General Meeting held on 27 April 2017, the shareholders approved the following profit appropriations for the year ended 31 December 2016:

– Appropriation of statutory surplus reserve base on 10% of the net profit;

– Appropriation of discretionary surplus reserve base on 40% of the net profit amounted to approximately RMB408 million;

– Appropriation of general reserve to 1.5% of the ending balance of the gross risk-bearing assets amounted to RMB194 million; and

– Declaration of cash dividend in an aggregation amount of approximately RMB327 million to all existing shareholders.

In accordance with the resolution at the Bank's Annual General Meeting on 4 May 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 RMB444 million; and

– Declaration of cash dividend in an aggregation amount of approximately RMB487 million to all existing shareholders.

In accordance with the resolution at the Bank's Board of Directors Meeting on 3 April 2019, the proposed profit distribution plan for the year ended 31 December 2018 is as follows:

– Appropriation of statutory surplus reserve base on 10% of the net profit;

– Appropriation of discretionary surplus reserve base on 10% of the net profit amounted to approximately RMB132 million;

– Appropriation of general reserve to 1.5% of the ending balance of the gross risk-bearing assets amounted to approximately RMB227 million; and

– Declaration of cash dividend in an aggregation amount of approximately RMB487 million to all existing shareholders.

As at 31 December 2016, 2017 and 2018, the consolidated retained earnings attributable to equity shareholders of the Bank included an appropriation of nil, RMB359,000 and RMB686,000 of surplus reserve made by subsidiary.

(b) Movements in components of equity

Details of the changes in the Bank's individual components of equity for the Relevant Periods are set out below:

	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Deficit on remeasurement of net defined benefit liability	Retained earnings	Total
Balance at 1 January 2016	3,268,000	908,849	1,882,498	1,916,304	28,441	(173)	958,220	8,962,139
Changes in equity for the year:								
Net profit for the year	–	–	–	–	–	–	1,020,882	1,020,882
Other comprehensive income	–	–	–	–	(30,761)	60	–	(30,701)
Total comprehensive income	–	–	–	–	(30,761)	60	1,020,882	990,181
Appropriation of profits								
– Appropriation to surplus reserve	–	–	641,498	–	–	–	(641,498)	–
– Appropriation to general reserve	–	–	–	194,000	–	–	(194,000)	–
– Appropriation to shareholders	–	–	–	–	–	–	(326,800)	(326,800)
Balance at 31 December 2016	3,268,000	908,849	2,523,996	2,110,304	(2,320)	(113)	816,804	9,625,520

	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	(Deficit)/ surplus on remeasurement of net defined benefit liability	Retained earnings	Total
Balance at 1 January 2017	3,268,000	908,849	2,523,996	2,110,304	(2,320)	(113)	816,804	9,625,520
Changes in equity for the year:								
Net profit for the year	–	–	–	–	–	–	1,228,536	1,228,536
Other comprehensive income	–	–	–	–	(84,424)	646	–	(83,778)
Total comprehensive income	–	–	–	–	(84,424)	646	1,228,536	1,144,758
Capital contribution by equity shareholders	–	4,190,000	–	–	–	–	–	4,190,000
Appropriation of profits								
– Appropriation to surplus reserve	–	–	531,207	–	–	–	(531,207)	–
– Appropriation to general reserve	–	–	–	444,200	–	–	(444,200)	–
– Appropriation to shareholders	–	–	–	–	–	–	(326,800)	(326,800)
Balance at 31 December 2017	3,268,000	5,098,849	3,055,203	2,554,504	(86,744)	533	743,133	14,633,478

	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Impairment reserve	Surplus on remeasurement of net defined benefit liability	Retained earnings	Total
Balance at 31 December 2017	3,268,000	5,098,849	3,055,203	2,554,504	(86,744)	–	533	743,133	14,633,478
Changes in accounting policies	–	–	–	–	15,161	38,541	–	(496,326)	(442,624)
Balance at 1 January 2018	3,268,000	5,098,849	3,055,203	2,554,504	(71,583)	38,541	533	246,807	14,190,854
Changes in equity for the year:									
Net profit for the year	–	–	–	–	–	–	–	1,306,815	1,306,815
Other comprehensive income	–	–	–	–	53,648	(21,326)	(8)	–	32,314
Total comprehensive income	–	–	–	–	53,648	(21,326)	(8)	1,306,815	1,339,129
Capital contribution by equity shareholders	1,600,000	(674,956)	–	–	–	–	–	–	925,044
Appropriation of profits									
– Appropriation to surplus reserve	–	–	131,627	–	–	–	–	(131,627)	–
– Appropriation to general reserve	–	–	–	226,500	–	–	–	(226,500)	–
– Appropriation to shareholders	–	–	–	–	–	–	–	(486,800)	(486,800)
Balance at 31 December 2018	4,868,000	4,423,893	3,186,830	2,781,004	(17,935)	17,215	525	708,695	15,968,227

35 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

(a) Structured entities sponsored by third party institutions in which the Group holds an interest:

The Group 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 and wealth management products under trust schemes issued by financial institutions. 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 Group 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 2016, 2017 and 2018:

	At 31 December 2016		At 31 December 2017		At 31 December 2018	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Investments classified as receivables	54,733,078	54,733,078	48,123,478	48,123,478	–	–
Financial investments at fair value through profit or loss	–	–	–	–	23,746,049	23,746,049
Financial investments at fair value through other comprehensive income	–	–	–	–	952,507	952,507
Financial investments at amortised cost	–	–	–	–	26,905,916	26,905,916
Total	54,733,078	54,733,078	48,123,478	48,123,478	51,604,472	51,604,472

As at 31 December 2016, 2017 and 2018, the carrying amounts of the unconsolidated structured entities are equal to the maximum exposures.

(b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in:

The types of unconsolidated structured entities sponsored by the Group 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 Group includes investments in units issued by these structured entities and fees charged by providing management services. As at 31 December 2016, 2017 and 2018, 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 2016, 2017 and 2018, the amount of fee and commission income received from the abovementioned structured entities by the Group amounted to RMB175 million, RMB145 million and RMB127 million, respectively.

As at 31 December 2016, 2017 and 2018, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group, are RMB34,514 million, RMB27,434 million and RMB24,079 million, respectively.

In addition, unconsolidated structured entities sponsored by the Group also include asset-backed securities. In January 2015, the Group transferred a portfolio of customer loans with book value of RMB2,364 million to an unconsolidated securitization vehicle managed by an independent trust company, which issued asset-backed securities to investors. As at 31 December 2016 and 2017, the balances of these asset-backed securities held by the Group are RMB17 million and RMB2 million. As at 31 December 2018, the Group's balance of these asset-backed securities is nil.

In September 2018, the Group transferred a portfolio of customer loans with book value of RMB4,175 million to an unconsolidated securitization vehicle managed by an independent trust company, which issued asset-backed securities to investors. As at 31 December 2018, the balance of these asset-backed securities held by the Group are RMB214 million.

Under the servicing arrangements with the independent trust company, the Group collects the cash flows of the transferred assets on behalf of the unconsolidated securitization vehicle. In return, the Group receives a fee that is expected to compensate the Group for servicing the related assets.

(c) Unconsolidated structure entities sponsored by the Group during the year which the Group does not have an interest in as at 31 December 2016, 2017 and 2018:

For the years ended 31 December 2016, 2017 and 2018, the aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after 1 January but matured before 31 December amounted to RMB29,081 million, RMB31,805 million and RMB19,701 million, respectively.

36 CAPITAL MANAGEMENT

The Group's capital management includes capital adequacy ratio management and capital financing management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines issued by the former CBRC. The capital of the Group is divided into core tier-one capital, other core tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading peer banks with reference to its own business environment and conditions.

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio.

The Group calculates its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and other relevant regulations promulgated by the former CBRC.

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 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. Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using basic indicator approach.

The capital adequacy ratios and related components of the Group illustrated below are computed based on the Group's statutory financial statements prepared in accordance with PRC GAAP.

The Group's capital adequacy ratios at 31 December 2016, 2017 and 2018 calculated in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and relevant requirements promulgated by the former CBRC are as follows:

The Group

	At 31 December		
	2016	**2017**	**2018**
Total core tier-one capital			
– Share capital	3,268,000	3,268,000	4,868,000
– Qualifying portion of capital reserve	908,849	5,098,849	4,423,893
– Surplus reserve	2,523,996	3,055,203	3,186,830
– General reserve	2,110,304	2,561,259	2,788,427
– Other comprehensive income	(2,433)	(86,211)	(21,059)
– Retained earnings	827,654	745,719	1,219,673
– Qualifying portions of non-controlling interests	16,469	21,346	15,286
Core tier-one capital	9,652,839	14,664,165	16,481,050
Core tier-one capital deductions	(102,651)	(113,905)	(139,615)
Net core tier-one capital	9,550,188	14,550,260	16,341,435
Other tier-one capital	1,307	1,904	2,038
Net tier-one capital	9,551,495	14,552,164	16,343,473
Tier-two capital			
– Instruments issued and share premium	2,000,000	2,000,000	2,000,000
– Surplus provision for loan impairment	815,775	1,375,025	1,627,994
– Qualifying portions of non-controlling interests	2,977	4,326	4,076
Net tier-two capital	2,818,752	3,379,351	3,632,070
Net capital base	12,370,247	17,931,515	19,975,543
Total risk weighted assets	98,928,001	143,212,973	153,784,644
Core tier-one capital adequacy ratio	9.65%	10.16%	10.63%
Tier-one capital adequacy ratio	9.65%	10.16%	10.63%
Capital adequacy ratio	12.50%	12.52%	12.99%

37 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Net (decrease)/increase in cash and cash equivalents

	Years ended 31 December		
	2016	2017	2018
Cash and cash equivalents as at 31 December	6,742,594	6,953,643	7,202,528
Less: Cash and cash equivalents as at 1 January	(6,959,463)	(6,742,594)	(6,953,643)
Net (decrease)/increase in cash and cash equivalents	(216,869)	211,049	248,885

(b) Cash and cash equivalents

	At 31 December		
	2016	2017	2018
Cash on hand	408,219	424,520	455,425
Deposits with central bank other than restricted deposits	5,990,439	5,670,737	5,865,032
Deposits with banks and other financial institutions	343,936	358,386	382,071
Placements with banks and other financial institutions	–	500,000	500,000
Total	6,742,594	6,953,643	7,202,528

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group'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 Group's consolidated cash flow statement as cash flows from financing activities.

	Debt securities issued	Interest payable arising from debt securities issued	Total
	(Note 30)	*(Note 31(a))*	
As at 1 January 2017	11,767,340	42,268	11,809,608
Changes from financing cash flows			
Net proceeds from new debt securities issued	24,700,000	–	24,700,000
Repayment of debt securities issued	(10,304,101)	–	(10,304,101)
Interest paid on debt securities issued	–	(706,787)	(706,787)
Total changes from financing cash flows	14,395,899	(706,787)	13,689,112
Other changes	–	–	–
Interest expense *(Note 3)*	–	706,787	706,787
Total Other Changes	–	706,787	706,787
As at 31 December 2017	26,163,239	42,268	26,205,507

	Debt securities issued	Interest accrued arising from debt securities issued	Total
	(Note 30)	*(Note 30)*	
As at 1 January 2018	26,163,239	42,268	26,205,507
Changes from financing cash flows			
Net proceeds from new debt securities issued	69,425,137	–	69,425,137
Repayment of debt securities issued	(44,350,000)	–	(44,350,000)
Interest paid on debt securities issued	–	(1,665,932)	(1,665,932)
Total changes from financing cash flows	25,075,137	(1,665,932)	23,409,205
Other changes	–	–	–
Interest expense *(Note 3)*	–	1,674,152	1,674,152
Total Other Changes	–	1,674,152	1,674,152
As at 31 December 2018	51,238,376	50,488	51,288,864

38 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(a) Related parties of the Group

(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		
	2016	2017	2018
Shanxi Financial Investment Holdings Limited (山西金融投資控股集團有限公司)	14.69%	14.69%	14.69%
Huaneng Capital Services Co., Ltd. (華能資本服務有限公司)	–	–	12.33%
Taiyuan Municipal Finance Bureau (太原市財政局)	9.79%	9.79%	9.58%
Changzhi Nanye Industry Group Co., Ltd. (長治市南燁實業集團有限公司)	9.47%	9.47%	9.26%
Shanxi International Electricity Group Limited Company (山西國際電力集團有限公司)	9.18%	9.18%	6.16%
Shanxi Lu'an Mining (Group) Co., Ltd. (山西潞安礦業(集團)有限責任公司)	7.54%	7.54%	7.38%
Shanxi Coking Coal Group Co., Ltd. (山西焦煤集團有限責任公司)	6.12%	6.12%	5.98%
Shanxi Jincheng Anthracite Mining Group Co., Ltd. (山西晉城無煙煤礦業集團有限責任公司)	6.12%	6.12%	4.11%
Taiyuan Iron & Steel (Group) Co., Ltd. (太原鋼鐵(集團)有限公司)	6.12%	6.12%	4.11%
Changzhi Huashengyuan Mining Industry Co., Ltd. (長治市華晟源礦業有限公司)	4.93%	4.93%	4.82%

The official names of these related parties are in Chinese. The English translation is for reference only.

(ii) Subsidiary of the Bank

The detailed information of the Bank's subsidiary is set out in Note 21.

(iii) Associates of the Bank

The detailed information of the Bank's associates is set out in Note 20.

(iv) 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 38(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		
	2016	**2017**	**2018**
Transactions during the year			
Interest income	7,638	6,919	32,233
Interest expense	165,477	15,060	22,009

	At 31 December		
	2016	**2017**	**2018**
Balances at end of the year			
Loans and advances to customers	199,000	459,000	532,799
Interests receivable	303	451	–
Deposits from customers	10,426,754	2,559,951	1,677,580
Interests payable	49,782	360	–

(ii) Transactions between the Bank and subsidiary:

The subsidiary of the Bank is its related party. The transactions between the Bank and its subsidiary are eliminated on combination.

	Years ended 31 December		
	2016	**2017**	**2018**
Transactions during the year			
Interest expense	306	607	8,012

	At 31 December		
	2016	**2017**	**2018**
Balances at end of the year			
Deposits from banks and other financial institutions	18,907	137,406	164,829
Interests payable	8	86	–

(iii) Transactions between the Bank and associates:

	Years ended 31 December		
	2016	**2017**	**2018**
Transactions during the year			
Interest income	3,913	15,138	23,793
Interest expense	1,826	1,826	1,079

	At 31 December		
	2016	**2017**	**2018**
Balances at end of the year			
Deposits with banks and other financial institutions	500,000	500,000	402,798
Deposits from banks and other financial institutions	226,882	7,918	1,543
Interests receivable	3,913	4,065	–
Interests payable	73	22	–

(iv) Transactions between the Bank and other related parties:

	Years ended 31 December		
	2016	**2017**	**2018**
Transactions during the year			
Interest income	218,552	702,465	840,580
Interest expense	446,592	595,960	291,794
Operating expenses	–	–	550
Fee and commission income	5,227	2,553	7,536
Assets transferring	–	69,834	–
Debt securities investments	5,292,932	276,182	49,510
Debt securities transferring	5,313,708	1,629,887	80,238

	At 31 December		
	2016	**2017**	**2018**
Balances at end of the year			
Loans and advances to customers	2,357,747	9,518,578	9,095,578
Interests receivable	2,131	23,080	–
Other assets *(Note)*	79,887	79,887	–
Investments classified as receivables	1,199,000	6,878,000	8,384,323
Deposits from banks and other financial institutions	463,118	1,609,228	1,493,362
Deposits from customers	4,678,091	14,562,973	9,910,244
Interests payable	552,358	257,749	–
Bank acceptances	2,561,871	1,954,912	2,628,404
Letters of credit	–	335,516	316,319

Note: On 9 March 2018, the amount of RMB80 million in other assets were fully recovered.

(c) Key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group, directly or indirectly, including members of the board of directors, the supervisory board and executive officers.

(i) Transactions between the Bank and key management personnel

	Years ended 31 December		
	2016	**2017**	**2018**
Transactions during the year			
Interest income	94	34	655
Interest expense	306	421	1,066

	At 31 December		
	2016	**2017**	**2018**
Balances at end of the year			
Loans and advances to customers	498	490	5,263
Interests receivable	20	10	–
Deposits from customers	15,287	17,401	8,374
Interests payable	65	26	–

(ii) Key management personnel compensation

The aggregate compensation of key management personnel is listed as follows:

	At 31 December		
	2016	**2017**	**2018**
Key management personnel compensation	16,650	19,179	16,858

(d) Loans and advances to directors, supervisors and officers

	At 31 December		
	2016	**2017**	**2018**
Aggregate amount of relevant loans outstanding at the end of the year	498	490	5,263
Maximum aggregate amount of relevant loans outstanding during the year	498	490	5,263

There were no amount due but unpaid, nor any impairment provision made against the principal or interest on these loans at 31 December 2016, 2017 and 2018.

39 SEGMENT REPORTING

The Group manages its business by business lines. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group 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.

Treasury business

This segment covers the Group's treasury business operations. The financial markets business enters into inter-bank money market transactions, repurchases transactions, and investments. It also trades in debt securities. The financial markets business segment also covers management of the Group'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 Group'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 Relevant Periods to acquire property and equipment, intangible assets and other long-term assets.

The Group

	Year ended 31 December 2016				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income/ (expense)	1,577,913	(519,954)	2,457,151	–	3,515,110
Internal net interest income/ (expense)	920,983	1,029,697	(1,950,680)	–	–
Net interest income	2,498,896	509,743	506,471	–	3,515,110
Net fee and commission income	203,937	189,780	9,170	–	402,887
Net trading losses	–	–	(60,483)	–	(60,483)
Net gains arising from investment securities	–	–	82,249	–	82,249
Other operating income	5,978	–	4,019	28	10,025
Operating income	2,708,811	699,523	541,426	28	3,949,788
Operating expenses	(872,475)	(714,211)	(118,867)	(1,912)	(1,707,465)
Impairment losses on assets	(878,865)	(11,148)	(15,069)	–	(905,082)
Share of profits of associates	–	–	–	427	427
Profit/(loss) before tax	957,471	(25,836)	407,490	(1,457)	1,337,668
Segment assets	61,899,845	6,936,711	103,819,136	–	172,655,692
Deferred tax assets	–	–	–	730,279	730,279
Total assets	61,899,845	6,936,711	103,819,136	730,279	173,385,971
Segment liabilities	84,873,375	35,660,947	43,180,355	–	163,714,677
Total liabilities	84,873,375	35,660,947	43,180,355	–	163,714,677
Other segment information					
– Depreciation and amortization	75,358	61,688	10,267	–	147,313
– Capital expenditure	79,135	64,781	10,782	–	154,698

	Year ended 31 December 2017				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income/ (expense)	2,558,410	(630,997)	2,087,786	–	4,015,199
Internal net interest income/ (expense)	498,030	1,140,220	(1,638,250)	–	–
Net interest income	3,056,440	509,223	449,536	–	4,015,199
Net fee and commission income	183,158	133,340	15,184	–	331,682
Net trading losses	–	–	(59,881)	–	(59,881)
Net gains arising from investment securities	–	–	91,295	–	91,295
Other operating income	3,352	1,458	–	2,822	7,632
Operating income	3,242,950	644,021	496,134	2,822	4,385,927
Operating expenses	(855,813)	(698,853)	(122,387)	(3,215)	(1,680,268)
Impairment losses on assets	(735,688)	(163,485)	(304,330)	–	(1,203,503)
Share of profits of associates	–	–	–	18,055	18,055
Profit/(loss) before tax	1,651,449	(218,317)	69,417	17,662	1,520,211
Segment assets	95,907,370	19,169,421	90,721,452	–	205,798,243
Deferred tax assets	–	–	–	1,071,548	1,071,548
Total assets	95,907,370	19,169,421	90,721,452	1,071,548	206,869,791
Segment liabilities	101,652,200	48,249,357	42,291,940	–	192,193,497
Total liabilities	101,652,200	48,249,357	42,291,940	–	192,193,497
Other segment information					
– Depreciation and amortization	73,429	59,962	10,501	–	143,892
– Capital expenditure	36,051	29,439	5,155	–	70,645

	Year ended 31 December 2018				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income/ (expense)	3,054,419	(486,211)	610,542	–	3,178,750
Internal net interest income/ (expense)	155,560	1,415,101	(1,570,661)	–	–
Net interest income	3,209,979	928,890	(960,119)	–	3,178,750
Net fee and commission income	219,248	144,888	59,532	–	423,668
Net trading gains	–	–	231,806	–	231,806
Net gains arising from investment securities	–	–	887,423	–	887,423
Other operating income	27,819	–	–	3,323	31,142
Operating income	3,457,046	1,073,778	218,642	3,323	4,752,789
Operating expenses	(838,818)	(805,387)	(98,356)	(8,257)	(1,750,818)
Impairment (losses)/reversal on assets	(1,779,273)	(30,498)	274,306	–	(1,535,465)
Share of profits of associates	–	–	–	33,216	33,216
Profit before tax	838,955	237,893	394,592	28,282	1,499,722
Segment assets	85,366,236	14,943,847	125,669,007	–	225,979,090
Deferred tax assets	–	–	–	1,268,752	1,268,752
Total assets	85,366,236	14,943,847	125,669,007	1,268,752	227,247,842
Segment liabilities	90,116,804	57,942,379	63,192,670	–	211,251,853
Total liabilities	90,116,804	57,942,379	63,192,670	–	211,251,853
Other segment information					
– Depreciation and amortization	62,287	59,803	7,303	–	129,393
– Capital expenditure	198,417	190,508	23,265	–	412,190

40 RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

Risk management system

The Group's risk management policies were established to identify and analyse the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Board of Directors is responsible for establishing and maintaining a robust and effective risk management system and determining general risk preference and risk tolerance of the Group. Based on the general strategy of the Group, the Committee of Risk Management under the Board; reviews the Group's risk management system and basic principles, risk management strategies and internal control system framework. Senior management led by the president will be responsible for the control of credit risk, market risk, operational risk and approval of related policies and procedures; Chief Risk Officer will be led by the president of the Bank. In addition, the Group set up the Department of Risk Management, Department of Credit Examination, Department of Asset and Liability Management, Department of Law and Compliance, Audit Department based on the requirements of general risk management to perform respective functions in risk management, strengthen risk-covering portfolio management capabilities and conduct inspection on compliance with risk management policy of internal control system on regular or irregular basis.

(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 Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

Credit business

To identify, assess, monitor and manage credit risks, the Group has designed effective system frameworks, credit policies and processes for credit risk management and implemented systematic control procedures. The responsible department for credit risk management include the Risk Management Department and Credit Approval Department. The Risk Management Department is responsible for implementing the Group's overall risk management system, besides risk monitoring and control, the Risk Management Department is also responsible for formulating risk management policies. The Credit Approval Department is independent from customer relationship and product management departments, to ensure the independence of credit approval. Front office departments including Corporate Business Department and Personal Finance Department carry out credit businesses according to the Group's risk management policies and procedures.

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

For corporate and institutional businesses, the Group has established industry-specific limits for credit approval. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, all credit applications are approved by designated credit officers. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

For personal credit operation business, credit assessment of applicants is used as the basis for loan approval. In the credit assessment, customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and their recommendations to the loan-approval departments for further approval. The Group monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process according to standardized loan recovery procedures.

The following credit risk management applies to the period before 1 January 2018:

The Group 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 honour 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 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 Group 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

When one or more quantitative, qualitative standards or upper limits are triggered, the Group assumes that credit risk on financial assets has increased significantly.

If the borrower is listed in the watch list and one or more of the following criteria are met:

– The credit spread increases significantly

– Significant changes with an adverse effect that have taken place in the borrower's business, financial and economic status

– Application of a grace period or debt-restructuring

– Significant changes with an adverse effect in the borrower's business conditions

– Less value of the collaterals (for the collateral loans and pledged loans only)

– Early indicators of problems of cash flow/liquidity, such as late payment of accounts payable/repayment of loans

– The borrower is more than 30 days past due.

The Group uses watch lists to monitor credit risk of financial assets related to loans and treasury operations, and conducts regular assessments at the counterparty level. The standards used in determining whether credit risk increases significantly are regularly monitored and reviewed by the management for the appropriateness.

As at 31 December 2018, the Group has not considered that any of its financial assets has lower credit risk and no longer compared the credit risk at the balance sheet date with that at the initial recognition to identify whether there was a significant increase in credit risk.

Definition of "default" and "credit-impaired assets"

At each reporting date, the Group assesses whether a financial asset is 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 events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor;

– the disappearance of an active market for a security because of financial difficulties of the issuer; or

– overdue more than 90 days.

The above criteria apply to all financial assets of the Group and they are consistent with the definition of "default" adopted by the internal management of credit risk.

Measurement of expected credit losses ("ECL")

The Group 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 Group 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 Group. LGD varies according to different types of counterparties, methods and priority of recovering debts, and the availability of collaterals or other credit support.

The Group determines the ECL by estimating the PD, LGD and EAD of individual exposure or asset portfolios in the future months. The Group 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). By adopting this approach, the Group can calculate the ECL for the future months. The results of calculation for each month are then discounted to the balance sheet date 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 Group 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 balance sheet date by the credit conversion factor (CCF).

• The Group 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 Group 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 Group 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 Group 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.

As at 31 December 2018, there has been no significant changes in the estimate techniques and key assumptions of the Group.

Forward-looking information included in the expected credit loss model is as follows:

• Both the assessment of significant increase in credit risk and the measurement of expected credit losses involve forward-looking information. Based on the analysis on historical data, the Group identified critical economic indicators that affect the credit risk and expected credit losses of all asset portfolios, including gross domestic product (GDP), consumer price index (CPI), and producer price index (PPI), etc. The Group identified the relations between these economic indicators and the probability of default historically by conducting regression analysis, and identified the expected probability of default by predicting the future economic indicators.

- When judging whether there is significant increase in credit risk, the Group multiplies the lifetime PD at the benchmark and under other scenarios by the weight of the scenarios, and considers the qualitative and maximum indicators. The Group measures relevant provision for loss by the weighted 12-month ECL (for stage 1) or the weighted lifetime ECL (for stage 2 and stage 3). The above weighted credit losses are calculated from multiplying the ECL under the different scenarios by the weight of the corresponding scenarios.

- Similar to other economic forecasts, there is highly inherent uncertainty in the assessment of estimated economic indicators and the probability of occurrence, and therefore, the actual results may be materially different from the forecasts. The Group believes that these forecasts reflect the Group's best estimate of possible outcomes.

- Other forward-looking factors not incorporated in above scenarios, such as the impact of regulatory and legal changes, have also been taken into account. However, they were not considered to have significant impact, and the expected credit losses were not adjusted accordingly. The Group reviews and monitors the appropriateness of the above assumptions on a quarterly basis.

(i) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as at the end of each of the Relevant Periods.

(ii) Financial assets analysed by credit quality are summarized as follows:

The Group

	At 31 December 2016				
	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	1,137,908	–	1,688,830	–	20,348
Provision for impairment losses	(439,018)	–	(143,740)	–	(19,284)
Sub-total	698,890	–	1,545,090	–	1,064
Collectively assessed gross amount	142,467	–	–	–	–
Provision for impairment losses	(44,058)	–	–	–	–
Sub-total	98,409	–	–	–	–
Overdue but not Impaired					
Less than three months (inclusive)	246,390	–	–	2,805,546	77,788
Between three months and six months (inclusive)	–	–	–	560,104	–
Between six months and one year (inclusive)	–	–	–	–	–
More than one year	–	–	–	–	–
Gross amount	246,390	–	–	3,365,650	77,788
Provision for impairment losses	(12,858)	–	–	(267,569)	–
Sub-total	233,532	–	–	3,098,081	77,788
Neither overdue nor impaired					
Gross amount	67,050,879	843,936	4,185,358	70,799,538	1,171,582
Provision for impairment losses	(1,597,716)	–	–	(318,500)	–
Sub-total	65,453,163	843,936	4,185,358	70,481,038	1,171,582
Total	66,483,994	843,936	5,730,448	73,579,119	1,250,434

The Group

	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	1,393,109	–	–	1,117,057	11,673
Provision for impairment losses	(537,084)	–	–	(408,299)	(10,384)
Sub-total	856,025	–	–	708,758	1,289
Collectively assessed gross amount	204,714	–	–	–	10,457
Provision for impairment losses	(59,133)	–	–	–	(118)
Sub-total	145,581	–	–	–	10,339
Overdue but not Impaired					
Less than three months (inclusive)	617,522	–	–	1,344,934	5,193
Between three months and six months (inclusive)	–	–	–	–	–
Between six months and one year (inclusive)	–	–	–	–	–
More than one year	–	–	–	–	–
Gross amount	617,522	–	–	1,344,934	5,193
Provision for impairment losses	(27,857)	–	–	(49,778)	–
Sub-total	589,665	–	–	1,295,156	5,193
Neither overdue nor impaired					
Gross amount	94,974,423	1,358,386	11,305,318	70,760,601	1,594,394
Provision for impairment losses	(2,315,300)	–	–	(576,062)	–
Sub-total	92,659,123	1,358,386	11,305,318	70,184,539	1,594,394
Total	94,250,394	1,358,386	11,305,318	72,188,453	1,611,215

The Group

	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	425,818	–	–	–	–
– Neither overdue nor credit-impaired	96,165,484	1,282,071	24,172,953	75,201,590	242,269
Sub-total	96,591,302	1,282,071	24,172,953	75,201,590	242,269
Balance of financial assets that are not credit-impaired and assessed for lifetime expected credit losses					
– Overdue but not credit-impaired	247,400	–	–	–	–
– Neither overdue nor credit-impaired	2,898,725	–	–	308,000	137,883
Sub-total	3,146,125	–	–	308,000	137,883
Balance of credit-impaired financial assets that are assessed for lifetime expected credit losses					
– Overdue and credit-impaired	1,882,700	–	–	1,023,297	–
– Credit-impaired but not overdue	17,660	–	–	484,934	7,849
Sub-total	1,900,360	–	–	1,508,231	7,849
Interests accrued	497,618	10,501	7,027	704,364	–
Less: Provision for impairment losses	(4,017,266)	(154)	(1)	(957,536)	(13,549)
Net value	98,118,139	1,292,418	24,179,979	76,764,649	374,452

* 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.

** Others comprise interests receivable, prepayments for acquisition of property and equipment 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 (exclusive interests accrued) analysed by credit quality

The Group

	At 31 December 2018							
	Balance				Provision for impairment 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	23,589,738	–	–	23,589,738	–	–	–	–
Deposits with banks and other financial institutions	782,071	–	–	782,071	(153)	–	–	(153)
Placements with banks and other financial institutions	500,000	–	–	500,000	(1)	–	–	(1)
Financial assets held under resale agreements	24,172,953	–	–	24,172,953	(1)	–	–	(1)
Loans and advances to customers	83,923,131	3,146,125	1,896,760	88,966,016	(2,158,195)	(776,736)	(1,082,335)	(4,017,266)
Financial investments	45,968,496	308,000	1,508,231	47,784,727	(468,002)	(37,064)	(452,470)	(957,536)
Other assets	242,269	137,883	7,849	388,001	(100)	(6,884)	(6,565)	(13,549)
Total	179,178,658	3,592,008	3,412,840	186,183,506	(2,626,452)	(820,684)	(1,541,370)	(4,988,506)
Financial assets at fair value through other comprehensive income								
Loans and advances to customers	12,668,171	–	3,600	12,671,771	(13,104)	–	(8,400)	(21,504)
Financial investments	4,981,207	–	–	4,981,207	(1,449)	–	–	(1,449)
Total	17,649,378	–	3,600	17,652,978	(14,553)	–	(8,400)	(22,953)
Credit commitments	27,312,383	250,365	19,359	27,582,107	(168,335)	(12,282)	(2,920)	(183,537)

The overall ECL rate for financial assets and credit commitments analysed by credit quality

The Group

	At 31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost	1.47%	22.85%	45.16%	2.68%
Financial assets at fair value through other comprehensive income	0.08%	N/A	70.00%	0.13%
Credit commitments	0.62%	4.91%	15.08%	0.67%

The fair value of collaterals held against loans and advances overdue but not impaired at 31 December 2016 and 2017 amounted to RMB41 million and RMB109 million. The fair value of collaterals held against loans and advances impaired at 31 December 2016 and 2017 amounted to RMB275 million and RMB432 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, the fair value of collaterals held against loans and advances that are not credit-impaired and assessed for lifetime expected credit losses amounted to RMB857 million. The fair value of collaterals held against loans and advances that are assessed for lifetime expected credit losses amounted to RMB736 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

The Group has none of rescheduled loans and advances to customers at 31 December 2016, 2017 and 2018.

(iv) Credit rating

The Group 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 the end of the Relevant Periods are as follows:

The Group and the Bank

	At 31 December		
	2016	**2017**	**2018**
Neither overdue nor impaired			
Ratings			
– AAA	12,607,945	16,097,130	20,956,747
– AA- to AA+	1,315,043	474,006	1,938,764
Sub-total	13,922,988	16,571,136	22,895,511
Unrated	163,756	131,897	134,330
Total	14,086,744	16,703,033	23,029,841

(b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The Group has especially built up a market risk management structure and team. The Department of Risk Management takes the major responsibility for the exposure of market risk and preparation of relevant market risk management policies to submit to the Committee of Risk Management. According to established standards and current management capabilities, the Group measures market risk with the major adoption of sensitivity analysis. Before the new products or new business are launched, their market risks will be identified according to regulations.

The major source of market risk of the Group is the asset and liability businesses involved in market operation and the risks in interest rate and exchange rate of products.

Interest rate risk

The Group is primarily exposed to interest rate risk arising from repricing risk in its commercial banking business and the risk of financial markets business position.

Repricing risk

Repricing risk, which is also known as "maturity mismatch risk", is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of bank assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes the Group's income or its inherent economic value to vary with the movement in interest rates.

Trading interest rate risk

Trading interest rate risk mainly arises from the treasury business' investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs other supplementary methods to measure its interest rate sensitivity, which is expressed as changes in the investment portfolios' fair value given a 100 basis points (1%) movement in the interest rates.

(i) The following tables indicate the assets and liabilities as at the end of each of the Relevant Periods by the expected next repricing dates or by maturity dates, depending on which is earlier:

The Group

	At 31 December 2016					
	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	23,318,164	519,523	22,798,641	–	–	–
Deposits with banks and other financial institutions	843,936	–	343,936	500,000	–	–
Financial assets held under resale agreements	5,730,448	–	5,730,448	–	–	–
Loans and advances to customers *(Note (i))*	66,483,994	–	20,274,947	29,960,143	14,893,630	1,355,274
Financial investments *(Note (ii))*	73,579,119	5,454,006	20,160,890	23,260,720	19,847,741	4,855,762
Others	3,430,310	3,430,310	–	–	–	–
Total assets	173,385,971	9,403,839	69,308,862	53,720,863	34,741,371	6,211,036
Liabilities						
Borrowing from the central bank	370,000	–	370,000	–	–	–
Deposits from banks and other financial Institutions	30,021,756	–	15,260,819	14,760,937	–	–
Placements from banks and other financial institutions	100,000	–	100,000	–	–	–
Financial assets sold under repurchase agreements	1,241,228	–	1,241,228	–	–	–
Deposits from customers	116,301,455	–	50,639,414	46,463,557	18,687,360	511,124
Debt securities issued	11,767,340	–	5,034,970	4,738,213	–	1,994,157
Others	3,912,898	3,912,898	–	–	–	–
Total liabilities	163,714,677	3,912,898	72,646,431	65,962,707	18,687,360	2,505,281
Asset-liability gap	9,671,294	5,490,941	(3,337,569)	(12,241,844)	16,054,011	3,705,755

	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	23,665,116	475,248	23,189,868	–	–	–
Deposits with banks and other financial institutions	858,386	–	358,386	500,000	–	–
Placements with banks and other financial institutions	500,000	–	500,000	–	–	–
Financial assets held under resale agreements	11,305,318	–	11,305,318	–	–	–
Loans and advances to customers *(Note (i))*	94,250,394	–	18,022,368	39,638,483	26,365,638	10,223,905
Financial investments *(Note (ii))*	72,188,453	4,199,959	14,109,997	19,069,701	28,297,906	6,510,890
Others	4,102,124	4,102,124	–	–	–	–
Total assets	206,869,791	8,777,331	67,485,937	59,208,184	54,663,544	16,734,795
Liabilities						
Borrowing from the central bank	1,025,000	–	1,025,000	–	–	–
Deposits from banks and other financial Institutions	11,468,650	–	4,918,650	6,550,000	–	–
Placements from banks and other financial institutions	500,000	–	500,000	–	–	–
Financial assets sold under repurchase agreements	10,301,143	–	10,300,154	989	–	–
Deposits from customers	136,198,941	–	73,124,692	32,730,227	30,310,335	33,687
Debt securities issued	26,163,239	–	9,344,547	14,824,072	–	1,994,620
Others	6,536,524	6,536,524	–	–	–	–
Total liabilities	192,193,497	6,536,524	99,213,043	54,105,288	30,310,335	2,028,307
Asset-liability gap	14,676,294	2,240,807	(31,727,106)	5,102,896	24,353,209	14,706,488

	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	23,589,738	881,318	22,708,420	–	–	–
Deposits with banks and other financial institutions	792,312	10,394	381,918	400,000	–	–
Placements with banks and other financial institutions	500,106	107	499,999	–	–	–
Financial assets held under resale agreements	24,179,979	7,027	24,172,952	–	–	–
Loans and advances to customers *(Note (i))*	98,118,139	497,618	30,434,051	32,519,900	31,182,349	3,484,221
Financial investments *(Note (iii))*	76,764,649	18,532,613	4,939,460	17,663,064	25,799,072	9,830,440
Others	3,302,919	3,302,919	–	–	–	–
Total assets	227,247,842	23,231,996	83,136,800	50,582,964	56,981,421	13,314,661
Liabilities						
Borrowing from the central bank	590,000	–	–	590,000	–	–
Deposits from banks and other financial Institutions	2,513,697	33,330	180,367	2,300,000	–	–
Placements from banks and other financial institutions	100,000	–	–	100,000	–	–
Financial assets sold under repurchase agreements	8,680,430	4,488	8,675,942	–	–	–
Deposits from customers	144,896,805	1,720,764	71,051,919	31,253,044	40,784,531	86,547
Debt securities issued	51,288,864	50,488	8,911,748	35,333,267	4,998,249	1,995,112
Others	3,182,057	3,182,057	–	–	–	–
Total liabilities	211,251,853	4,991,127	88,819,976	69,576,311	45,782,780	2,081,659
Asset-liability gap	15,995,989	18,240,869	(5,683,176)	(18,993,347)	11,198,641	11,233,002

Notes:

(i) As at 31 December 2016, 2017 and 2018, for loans and advances to customers, the category "Less than three months" includes overdue amounts (net of provision for impairment losses) of RMB804 million, RMB799 million and RMB1,355 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 Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. The following table sets forth the results of the Group's interest rate sensitivity analysis on net profit and equity with an assumption that all other variables held constant.

	At 31 December		
	2016	**2017**	**2018**
Change in net profit	(Decrease)/ Increase	(Decrease)/ Increase	(Decrease)/ Increase
Up 100 bps parallel shift in yield curves	(76,721)	(189,947)	(101,620)
Down 100 bps parallel shift in yield curves	76,902	192,868	102,126

	At 31 December		
	2016	**2017**	**2018**
Change in equity	(Decrease)/ Increase	(Decrease)/ Increase	(Decrease)/ Increase
Up 100 bps parallel shift in yield curves	(108,098)	(225,637)	(152,103)
Down 100 bps parallel shift in yield curves	110,273	230,849	155,176

The sensitivity analysis above is based on a static interest rate risk profile of the Group'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 Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

– Interest rate movements at the end of each of the Relevant Periods apply to non-derivative financial instruments of the Group;

– At the end of each of the Relevant Periods, 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 Group'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

The majority of the business of the Group is related to Renminbi, as well as a small amount of business related to US dollar and other foreign currencies.

The changes in exchange rates will affect the financial position and cash flow of the Group. Due to the small amount of foreign currency business of the Group, the effect of foreign currency risk on the Group would be immaterial. The major principle of the Group's control on foreign currency risk is to achieve matching of assets and liabilities in each currency and to conduct daily monitoring on currency exposure.

The Group adopts sensitivity analysis to measure the possible effects of changes in exchange rates on net gains and losses and interests of the Group. As the foreign currency assets and liabilities account for an immaterial part of the total assets and total liabilities of the Group, the effect of changes in exchange rates on net gains and losses and interests of the Group would be immaterial.

The currency exposures as at the end of each of the Relevant Periods are as follows:

The Group

	At 31 December 2016			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	23,317,970	156	38	23,318,164
Deposits with banks and other financial institutions	804,146	39,690	100	843,936
Financial assets held under resale agreements	5,730,448	–	–	5,730,448
Loans and advances to customers	66,483,994	–	–	66,483,994
Financial Investments *(Note (i))*	73,579,119	–	–	73,579,119
Others	3,430,070	231	9	3,430,310
Total assets	173,345,747	40,077	147	173,385,971
Liabilities				
Borrowing from the central bank	370,000	–	–	370,000
Deposits from banks and other financial Institutions	30,021,756	–	–	30,021,756
Placements from banks and other financial institutions	100,000	–	–	100,000
Financial assets sold under repurchase agreements	1,241,228	–	–	1,241,228
Deposits from customers	116,295,961	5,347	147	116,301,455
Debt securities issued	11,767,340	–	–	11,767,340
Others	3,878,193	34,696	9	3,912,898
Total liabilities	163,674,478	40,043	156	163,714,677
Net position	9,671,269	34	(9)	9,671,294
Off-balance sheet credit commitments	29,147,651	–	–	29,147,651

	At 31 December 2017			
	RMB	USD (RMB Equivalent))	Others (RMB Equivalent)	Total (RMB Equivalent))
Assets				
Cash and deposits with the central bank	23,664,979	133	4	23,665,116
Deposits with banks and other financial institutions	841,703	16,583	100	858,386
Placements with banks and other financial institutions	500,000	–	–	500,000
Financial assets held under resale agreements	11,305,318	–	–	11,305,318
Loans and advances to customers	94,233,144	17,250	–	94,250,394
Financial Investments *(Note (i))*	72,188,453	–	–	72,188,453
Others	4,101,819	270	35	4,102,124
Total assets	206,835,416	34,236	139	206,869,791
Liabilities				
Borrowing from the central bank	1,025,000	–	–	1,025,000
Deposits from banks and other financial Institutions	11,468,650	–	–	11,468,650
Placements from banks and other financial institutions	500,000	–	–	500,000
Financial assets sold under repurchase agreements	10,301,143	–	–	10,301,143
Deposits from customers	136,198,083	713	145	136,198,941
Debt securities issued	26,163,239	–	–	26,163,239
Others	6,503,492	33,026	6	6,536,524
Total liabilities	192,159,607	33,739	151	192,193,497
Net position	14,675,809	497	(12)	14,676,294
Off-balance sheet credit commitments	22,116,183	–	–	22,116,183

	At 31 December 2018			
	RMB	USD (RMB Equivalent))	Others (RMB Equivalent)	Total (RMB Equivalent))
Assets				
Cash and deposits with the central bank	23,589,576	83	79	23,589,738
Deposits with banks and other financial institutions	756,364	35,848	100	792,312
Placements with banks and other financial institutions	500,106	–	–	500,106
Financial assets held under resale agreements	24,179,979	–	–	24,179,979
Loans and advances to customers	98,118,139	–	–	98,118,139
Financial Investments *(Note (ii))*	76,764,649	–	–	76,764,649
Others	3,302,916	–	3	3,302,919
Total assets	227,211,729	35,931	182	227,247,842
Liabilities				
Borrowing from the central bank	590,000	–	–	590,000
Deposits from banks and other financial Institutions	2,513,697	–	–	2,513,697
Placements from banks and other financial institutions	100,000	–	–	100,000
Financial assets sold under repurchase agreements	8,680,430	–	–	8,680,430
Deposits from customers	144,895,930	750	125	144,896,805
Debt securities issued	51,288,864	–	–	51,288,864
Others	3,147,428	34,560	69	3,182,057
Total liabilities	211,216,349	35,310	194	211,251,853
Net position	15,995,380	621	(12)	15,995,989
Off-balance sheet credit commitments	27,582,107	–	–	27,582,107

(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

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to sustain its asset business or meet repayment obligations.

The Group plays an active part in managing liquidity risks and improves related management system in terms of organisation, institution, system, management and mechanism. The organisational structure of the Group's liquidity risk management consists of the Board of Directors, senior management and its Risk Management Committee and Asset and Liability Management Committee, Department of Risk Liquidity Indicator Management, Department of Asset and Liability Management, Department of Corporate Business, Department of Individual Business, Department of International Business, Department of Credit Examination, Department of Financial Market, Department of Information Technology and Audit Department, responsible for formulating liquidity risk management strategy and establishing internal control mechanism to support the implementation and supervision of liquidity risk management strategy.

The measurement of liquidity risk of the Group adopts liquidity indicator and cash flow gap calculation. By stress testing, the Group sets up mild, moderate and severe scenarios to examine the capacity to withstand liquidity or liquidity crises and improve liquidity contingency measures. In terms of response to liquidity risks, the Group: strengthens management and monitoring of liquidity limits; establishes related liquidity emergency leading groups, early-warning indicators for internal and external liquidity risks and indicators that could trigger contingency plans and monitors these indicators; builds up quality liquidity assets reserve and financing capability management; erects liquidity risk reporting mechanism, in which the asset and liability management department reports to the Asset and Liability Management Committee, senior management and the Board of Directors on issues related to the status, stress testing and contingency plans of liquidity risks on a regular basis.

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of each of the Relevant Periods:

The Group

	At 31 December 2016							
	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	17,460,624	5,857,540	–	–	–	–	–	23,318,164
Deposit with banks and other financial institutions	–	293,736	–	50,200	500,000	–	–	843,936
Financial assets held under resale agreements	–	–	5,730,448	–	–	–	–	5,730,448
Loans and advances to customers	792,068	138,614	3,589,229	9,687,001	33,555,391	16,331,903	2,389,788	66,483,994
Financial investments	801,838	4,652,168	9,777,772	10,163,057	23,160,719	20,167,803	4,855,762	73,579,119
Others	2,051,516	507,566	78,666	256,624	201,955	276,840	57,143	3,430,310
Total assets	21,106,046	11,449,624	19,176,115	20,156,882	57,418,065	36,776,546	7,302,693	173,385,971
Liabilities								
Borrowing from the central bank	–	–	370,000	–	–	–	–	370,000
Deposits from banks and other financial Institutions	–	725,059	6,495,000	8,040,760	14,760,937	–	–	30,021,756
Placements from banks and other financial institutions	–	–	100,000	–	–	–	–	100,000
Financial assets sold under repurchase agreements	–	–	1,168,211	73,017	–	–	–	1,241,228
Deposit from customers	–	32,553,986	10,912,696	7,172,732	46,463,557	18,687,360	511,124	116,301,455
Debt securities issued	–	–	1,285,945	3,749,025	4,738,213	–	1,994,157	11,767,340
Others	–	1,888,163	141,491	180,749	963,026	697,200	42,269	3,912,898
Total liabilities	–	35,167,208	20,473,343	19,216,283	66,925,733	19,384,560	2,547,550	163,714,677
Net position	21,106,046	(23,717,584)	(1,297,228)	940,599	(9,507,668)	17,391,986	4,755,143	9,671,294

	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	17,569,859	6,095,257	–	–	–	–	–	23,665,116
Deposit with banks and other financial institutions	–	189,266	–	169,120	500,000	–	–	858,386
Placements with banks and other financial institutions	–	–	500,000	–	–	–	–	500,000
Financial assets held under resale agreements	–	–	9,012,589	2,292,729	–	–	–	11,305,318
Loans and advances to customers	898,873	374,893	4,944,318	11,804,284	39,638,483	26,365,638	10,223,905	94,250,394
Financial investments	49,546	4,100,413	5,311,813	8,616,214	19,218,989	28,230,124	6,661,354	72,188,453
Others	2,402,996	278,575	176,022	519,275	209,940	417,461	97,855	4,102,124
Total assets	20,921,274	11,038,404	19,944,742	23,401,622	59,567,412	55,013,223	16,983,114	206,869,791
Liabilities								
Borrowing from the central bank	–	–	1,000,000	25,000	–	–	–	1,025,000
Deposits from banks and other financial Institutions	–	236,650	900,000	3,782,000	6,550,000	–	–	11,468,650
Placements from banks and other financial institutions	–	–	500,000	–	–	–	–	500,000
Financial assets sold under repurchase agreements	–	–	10,300,154	–	989	–	–	10,301,143
Deposit from customers	–	54,424,003	5,687,790	13,012,899	32,730,227	30,310,335	33,687	136,198,941
Debt securities issued	–	–	3,688,894	5,655,653	14,824,072	–	1,994,620	26,163,239
Others	–	5,033,912	118,514	202,459	572,010	567,337	42,292	6,536,524
Total liabilities	–	59,694,565	22,195,352	22,678,011	54,677,298	30,877,672	2,070,599	192,193,497
Net position	20,921,274	(48,656,161)	(2,250,610)	723,611	4,890,114	24,135,551	14,912,515	14,676,294

	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	17,260,969	6,320,457	8,312	–	–	–	–	23,589,738
Deposit with banks and other financial institutions	–	381,918	–	7,600	402,794	–	–	792,312
Placements with banks and other financial institutions	–	–	500,106	–	–	–	–	500,106
Financial assets held under resale agreements	–	–	23,590,840	589,139	–	–	–	24,179,979
Loans and advances to customers	918,466	490,452	5,152,938	9,991,650	32,569,434	33,703,264	15,291,935	98,118,139
Financial investments	315,854	17,437,095	1,399,201	3,351,604	17,840,178	26,451,643	9,969,074	76,764,649
Others	2,908,312	394,607	–	–	–	–	–	3,302,919
Total assets	21,403,601	25,024,529	30,651,397	13,939,993	50,812,406	60,154,907	25,261,009	227,247,842
Liabilities								
Borrowing from the central bank	–	–	–	–	590,000	–	–	590,000
Deposits from banks and other financial Institutions	–	180,367	5,460	2,253	2,325,617	–	–	2,513,697
Placements from banks and other financial institutions	–	–	–	–	100,000	–	–	100,000
Financial assets sold under repurchase agreements	–	–	8,419,871	260,559	–	–	–	8,680,430
Deposit from customers	–	52,222,595	7,243,274	12,099,039	31,741,332	41,503,945	86,620	144,896,805
Debt securities issued	–	–	1,852,938	7,058,810	35,333,267	5,006,468	2,037,381	51,288,864
Others	–	3,090,086	–	–	47,791	44,180	–	3,182,057
Total liabilities	–	55,493,048	17,521,543	19,420,661	70,138,007	46,554,593	2,124,001	211,251,853
Net position	21,403,601	(30,468,519)	13,129,854	(5,480,668)	(19,325,601)	13,600,314	23,137,008	15,995,989

Note:

(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, 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.

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities of the Group at the end of the Relevant Periods:

The Group

	At 31 December 2016							
	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	370,000	371,110	–	371,110	–	–	–	–
Deposits from banks and other financial institutions	30,021,756	30,030,523	725,059	6,495,524	8,042,671	14,767,269	–	–
Placements from banks and other financial institutions	100,000	100,374	–	–	100,374	–	–	–
Financial assets sold under repurchase agreements	1,241,228	1,241,468	–	1,168,220	73,248	–	–	–
Deposits from customers	116,301,455	119,702,725	32,554,076	10,919,867	7,200,941	47,123,052	21,289,639	615,150
Debt securities issued	11,767,340	12,699,575	–	1,285,945	3,749,025	4,854,742	466,118	2,343,745
Other financial liabilities	1,800,893	1,800,893	1,683,053	–	–	49,268	68,572	–
Total non-derivative financial liabilities	161,602,672	165,946,668	34,962,188	20,240,666	19,166,259	66,794,331	21,824,329	2,958,895

	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	1,025,000	1,026,372	–	1,000,681	25,691	–	–	–
Deposits from banks and other financial institutions	11,468,650	11,958,640	236,650	936,630	3,938,096	6,847,264	–	–
Placements from banks and other financial institutions	500,000	500,780	–	500,780	–	–	–	–
Financial assets sold under repurchase agreements	10,301,143	10,303,623	–	10,302,623	–	1,000	–	–
Deposits from customers	136,198,941	140,385,790	54,424,847	5,693,156	13,067,275	33,133,182	34,026,842	40,488
Debt securities issued	26,163,239	26,978,945	–	3,688,894	5,655,653	14,940,601	466,118	2,227,679
Other financial liabilities	4,789,884	4,789,884	4,689,412	–	–	50,612	49,860	–
Total non-derivative financial liabilities	190,446,857	195,944,034	59,350,909	22,122,764	22,686,715	54,972,659	34,542,820	2,268,167

	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	590,000	606,362	–	–	–	606,362	–	–
Deposits from banks and other financial institutions	2,513,697	2,543,337	180,367	5,400	2,625	2,354,945	–	–
Placements from banks and other financial institutions	100,000	103,969	–	–	–	103,969	–	–
Financial assets sold under repurchase agreements	8,680,430	8,677,682	–	8,416,306	261,376	–	–	–
Deposits from customers	144,896,805	145,362,673	52,005,627	7,141,902	11,930,898	31,545,892	42,650,232	88,122
Debt securities issued	51,288,864	54,092,002	–	1,891,105	7,212,214	37,012,848	5,864,194	2,111,641
Other financial liabilities	3,182,057	3,182,057	3,090,086	–	–	47,791	44,180	–
Total non-derivative financial liabilities	211,251,853	214,568,082	55,276,080	17,454,713	19,407,113	71,671,807	48,558,606	2,199,763

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might diverge from actual results.

(d) Operational risk

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impact from other external events.

The Group has specified issues of operational risks, including its manifestation, management mode, reporting procedure, reporting cycle and statistics of loss and improved comprehensive risk management system, with major initiatives as follows:

– Establishment of operational risk management system in a crisscrossing manner. On the one hand, the Group establishes an operational risk management framework that is compatible with its nature, scale, complexity and risk characteristics, including the operational risk management mechanism that involves its board of directors, board of supervisors, senior management, head office and branches. On the other hand, a three-tier risk prevention system for the front office, middle office and back office has been established for every major risk faced by the Group.

– Formation of business philosophy of compliance and robustness. The Group fosters favourable control environment, including constant advances and promotion in operational risk culture by the board of directors and senior management.

– Preference to low operational risk under the framework of 'robust' risk preference. By conducting controls on operational risk including identification, measurement, resolution, monitoring and reporting, the Group establishes mechanisms for risk avoidance, loss prediction, prevention, control, reduction, financing to control operational risk within the carrying capacity of the Group and maximise its profits.

– Prevention of operational risks based on the means of inspection and supervision. All departments and branches of the head office actively perform their duties of supervision and management, conduct routine and special inspections on operational risks in major businesses, establish ledger of all problems identified for rectification and check-off. Based on the inspection by departments, the internal audit department fully uses the off-site audit system, business risk early-warning system and remote monitoring system to detect violations and pay constant attention to risk-prone problems to prevent operational risks. In the meantime, inspections and investigations are exercised on key businesses, key institutions and key personnel to prevent operational risks.

– Combination of punishment and incentives to encourage compliance and standard operations. Integral management will be implemented on personnel violating operational standards for strict ascertainment of responsibility; employees are encouraged to spontaneously disclose and actively report operational risks; internal management, compliance operation, inspection and supervision and swindle prevention and control of the head office and branches shall be quantitatively assessed for penalty points; innovative implementation of compliance and internal control management of institutions shall be assessed for bonus points.

– Substantive achievements in carrying out system training and improving staff operation skills have been effective in preventing operational risks for the Group.

41 FAIR VALUE

(a) Methods and assumptions for measurement of fair value

The Group 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 end of the Relevant Periods. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows.

(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 end of the Relevant Periods.

(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 end of the Relevant Periods, 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 end of the Relevant Periods.

(b) Fair value measurement

(i) Financial assets

The Group's financial assets mainly consist of cash and deposits with the central bank, receivables with banks and other financial institutions, loans and advances to customers, and investments.

Deposits with the central bank, receivables 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.

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 19. 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 Group's financial liabilities mainly include deposits from banks and other financial institutions, placements from banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers and debt securities issued.

The book value and fair value of debt securities issued is presented in Note 30. 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 Relevant Periods on a recurring basis, categorised 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, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and exchange rate. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

The Group

	At 31 December 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements				
Assets				
Financial investments at fair value through profit or loss				
– debt securities	–	637,607	–	637,607
– investment funds	–	2,853,070	–	2,853,070
Available-for-sale financial assets				
– debt securities	–	1,514,060	163,757	1,677,817
– equity investments	–	–	1,178,130	1,178,130
– interbank deposits	–	49,833	–	49,833
– investment funds	–	600,960	77,304	678,264
Total	–	5,655,530	1,419,191	7,074,721

	At 31 December 2017			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
Financial investments at fair value through profit or loss				
– debt securities	–	1,770,635	–	1,770,635
– interbank deposits	–	592,127	–	592,127
– investment funds	–	2,868,800	–	2,868,800
Available-for-sale financial assets				
– debt securities	–	1,770,856	131,897	1,902,753
– equity investments	–	–	906,571	906,571
– interbank deposits	–	1,762,831	–	1,762,831
– investment funds	–	1,204,440	27,173	1,231,613
Total	–	9,969,689	1,065,641	11,035,330

	At 31 December 2018			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
Financial investments at fair value through profit or loss				
– debt securities	–	283,963	134,330	418,293
– interbank deposits	–	29,261	–	29,261
– investment funds	–	16,885,451	–	16,885,451
– equity investments	–	–	58,285	58,285
– investment management products	–	3,232,890	3,627,708	6,860,598
Financial investments at fair value through other comprehensive income				
– debt securities	–	2,335,109	–	2,335,109
– interests accrued	–	30,549	–	30,549
– equity investments	–	–	151,190	151,190
– investment management products	–	921,436	–	921,436
– interest accrued	–	31,071	–	31,071
– interbank deposits	–	1,573,472	–	1,573,472
Loans and advances to customers measured at fair value through other comprehensive income:				
– discounted bills	–	12,671,771	–	12,671,771
Total	–	37,994,973	3,971,513	41,966,486

The movement during the year ended 31 December 2016 in the balance of Level 3 fair value measurements is as follows:

	1 January 2016	Transfer into Level 3	Transfer out of Level 3	Total gains or losses		Purchases, issues, sales and settlements				31 December 2016	Unrealised gains or losses for the year included in profit or loss for assets and liabilities held at the end of the year
				Recorded in profit or loss	Recorded in other comprehensive income	Purchases	Issues	Sales	Settlements		
Assets											
Financial assets at fair value through profit or loss											
– investment management products	50,750	–	(50,750)	–	–	–	–	–	–	–	–
Available-for-sale financial assets											
– debt securities	–	–	–	–	–	163,757	–	–	–	163,757	–
– equity investments	58,250	–	–	–	–	1,119,880	–	–	–	1,178,130	–
– investment funds	26,144	–	–	–	1,160	50,000	–	–	–	77,304	–
Sub-total	84,394	–	–	–	1,160	1,333,637	–	–	–	1,419,191	–
Total	135,144	–	(50,750)	–	1,160	1,333,637	–	–	–	1,419,191	–

The movement during the year ended 31 December 2017 in the balance of Level 3 fair value measurements is as follows:

	1 January 2017	Transfer into Level 3	Transfer out of Level 3	Total gains or losses		Purchases, issues, sales and settlements				31 December 2017	Unrealised gains or losses for the year included in profit or loss for assets and liabilities held at the end of the year
				Recorded in profit or loss	Recorded in other comprehensive income	Purchases	Issues	Sales	Settlements		
Assets											
Available-for-sale financial assets											
– debt securities	163,757	–	–	–	(31,860)	–	–	–	–	131,897	–
– equity investments	1,178,130	–	–	–	(34,137)	–	–	–	(237,422)	906,571	–
– investment funds	77,304	–	–	260	(131)	–	–	(50,260)	–	27,173	–
Total	1,419,191	–	–	260	(66,128)	–	–	(50,260)	(237,422)	1,065,641	–

The movement during the year ended 31 December 2018 in the balance of Level 3 fair value measurements is as follows:

	1 January 2018	Transfer into Level 3	Transfer out of Level 3	Total gains or losses		Purchases, issues, sales and settlements				31 December 2018	Unrealised gains or losses for the period included in profit or loss for assets and liabilities held at the end of the year
	(Note)			Recorded in profit or loss	Recorded in other comprehensive income	Purchases	Issues	Sales	Settlements		
Assets											
Financial assets at fair value through profit or loss											
– debt securities	131,897	–	–	2,433	–	–	–	–	–	134,330	2,433
– equity investments	898,419	–	–	34,235	–	–	–	–	(874,369)	58,285	98
– investment management products	5,395,468	–	–	6,240	–	1,000,000	–	–	(2,774,000)	3,627,708	8,764
– investment funds	27,173	–	–	981	–	–	–	(28,154)	–	–	–
Sub-total	6,452,957	–	–	43,889	–	1,000,000	–	(28,154)	(3,648,369)	3,820,323	11,295
Financial investments at fair value through other comprehensive income											
– equity investments	8,250	–	–	–	(35,734)	178,674	–	–	–	151,190	–
Total	6,461,207	–	–	43,889	(35,734)	1,178,674	–	(28,154)	(3,648,369)	3,971,513	11,295

Note:

The Group has adopted IFRS 9 from 1 January 2018. According to the classification and measurement requirements under IFRS 9, the financial instruments in Level 3 fair value hierarchy have been reclassified and measured on 1 January 2018 (see Note 2(1)(a)).

During each of the years ended 31 December 2016, 2017 and 2018, 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 2016 The Group and the Bank	Valuation techniques	Unobservable input
Available-for-sale financial assets			
– debt securities	163,757	Discounted cash flow	Risk-adjusted discount rate, cash flow
– equity investments	1,178,130	Discounted cash flow	Risk-adjusted discount rate, cash flow
– investment funds	77,304	Discounted cash flow	Risk-adjusted discount rate, cash flow

	Fair value as at 31 December 2017 The Group and the Bank	Valuation techniques	Unobservable input
Available-for-sale financial assets			
– debt securities	131,897	Discounted cash flow	Risk-adjusted discount rate, cash flow
– equity investments	906,571	Discounted cash flow	Risk-adjusted discount rate, cash flow
– investment funds	27,173	Discounted cash flow	Risk-adjusted discount rate, cash flow

	Fair value as at 31 December 2018 The Group and the Bank	Valuation techniques	Unobservable input
Financial assets at fair value through profit or loss			
– debt securities	134,330	Discounted cash flow	Risk-adjusted discount rate, cash flow
– equity investments	58,285	Discounted cash flow	Risk-adjusted discount rate, cash flow
– investment management products	3,627,708	Discounted cash flow	Risk-adjusted discount rate, cash flow
Financial investments at fair value through other comprehensive income			
– equity investments	151,190	Discounted cash flow	Risk-adjusted discount rate, cash flow

During the years ended 31 December 2016, 2017 and 2018, there were no significant change in the valuation techniques.

As at 31 December 2016, 2017 and 2018, 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 and investment management products. The fair value of these financial assets fluctuates according to the changes in the unobservable inputs.

The sensitivity of the fair value on changes in 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 parallel movement of plus or minus 1 percent of change in fair value to reasonably possible alternative assumptions.

The Group and the Bank

	At 31 December 2016			
	Effect on net profit		Effect on other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Available-for-sale financial assets				
– debt securities	–	–	5,839	(5,495)
– equity investments	–	–	10,189	(9,940)
– investment funds	–	–	307	(299)

	At 31 December 2017			
	Effect on net profit		Effect on other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Available-for-sale financial assets				
– debt securities	–	–	5,055	(4,806)
– equity investments	–	–	4,082	(3,953)
– investment funds	–	–	86	(85)

	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				
– debt securities	4,202	(4,034)	–	–
– equity investments	377	(369)	–	–
– investment management products	60,381	(56,542)	–	–
Financial investments at fair value through other comprehensive income				
– equity investments	–	–	578	(483)

42 ENTRUSTED LENDING BUSINESS

The Group provides entrusted lending business services to customers. All entrusted loans are funded by entrusted funds from these customers. The Group does not take any credit risk in relation to these transactions. The Group 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 Group and are not recognised in the statements of financial position. Surplus funding is accounted for as deposits from customers.

The Group and the Bank

	At 31 December		
	2016	**2017**	**2018**
Entrusted loans	6,529,062	4,935,123	9,840,516
Entrusted funds	6,529,062	7,931,377	9,846,311

43 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Credit commitments

The Group'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 Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The Group and the Bank

	At 31 December		
	2016	**2017**	**2018**
Loan commitments			
– Original contractual maturity within one year	526,367	337,734	150,742
– Original contractual maturity more than one year (inclusive)	454,101	2,535,607	1,501,600
Credit card commitments	–	1,208,242	2,701,251
Sub-total	980,468	4,081,583	4,353,593
Acceptances	28,118,891	16,825,764	22,081,256
Letters of credit	31,708	1,164,276	1,101,739
Letters of guarantees	16,584	44,560	45,519
Total	29,147,651	22,116,183	27,582,107

The Group may be exposed to credit risk in all the above credit businesses. Group 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.

(b) Credit risk-weighted amount for credit commitments

The Group and the Bank

	At 31 December		
	2016	**2017**	**2018**
Credit risk-weighted amounts	10,534,550	11,476,028	14,603,981

The credit risk-weighted amount for credit commitments represents the amount calculated with reference to the guidelines issued by the former CBRC.

(c) Operating lease commitments

As at the end of each of the Relevant Periods, the Group's future minimum lease payments under non-cancellable operating leases for properties are as follows:

The Group

	At 31 December		
	2016	**2017**	**2018**
Within one year (inclusive)	100,442	172,353	168,319
After one year but within two years (inclusive)	93,412	99,840	148,738
After two years but within three years (inclusive)	73,475	82,165	124,454
After three years but within five years (inclusive)	106,336	108,244	169,976
After five years	65,111	66,570	82,299
Total	438,776	529,172	693,786

The Bank

	At 31 December		
	2016	**2017**	**2018**
Within one year (inclusive)	100,282	172,353	167,558
After one year but within two years (inclusive)	91,047	98,998	148,104
After two years but within three years (inclusive)	73,395	82,165	124,454
After three years but within five years (inclusive)	106,336	108,244	169,976
After five years	65,111	66,570	82,299
Total	436,171	528,330	692,391

(d) Capital commitments

As at the end of each of the Relevant Periods, the Group and the Bank's authorised capital commitments are as follows:

	At 31 December		
	2016	**2017**	**2018**
Contracted but not paid for	57,569	57,306	66,035
Authorised but not contracted for	–	–	–
Total	57,569	57,306	66,035

(e) Outstanding litigations and disputes

As at 31 December 2016, 2017 and 2018, the Group and the Bank was the defendant in certain outstanding litigations and disputes with an estimated gross amounts of RMB352 million, RMB1,359 million and RMB1,008 million, respectively. The Group 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 Group's lawyers and external lawyers, it is unlikely for the Group to receive unfavorable ruling in these case. Therefore, the Group don't recognised the litigation provision. Directors of the Bank are of the view that these litigations will not have any material adverse effect on the Group's business, financial condition, results of operations or prospects.

(f) Bonds underwriting commitments and redemption obligations

The Group and the bank have no outstanding bonds underwriting commitments at the end of each of the Relevant Periods.

As an underwriting agent of PRC government bonds, the Group 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 MOF 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 Group, but not yet matured at 31 December 2016, 2017 and 2018:

	At 31 December		
	2016	**2017**	**2018**
Redemption obligations	3,074,166	3,146,502	3,270,826

(g) Risk fund relief obligations

As a member of the Asia Financial Cooperation Association ("AFCA"), the Bank subscribed 2 shares of the risk fund established by AFCA at a price of RMB 100 million per share with 10% cash and 90% cooperative obligation as at the fund establishment date. Therefore, the Bank has the obligation of providing support to the other AFCA members through certain methods within the limit of RMB180 million.

44 SUBSEQUENT EVENTS

The profit appropriation of the Bank was proposed in accordance with the resolution of the board of directors meeting as disclosed in Note 34(a).

D SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Bank and its subsidiary in respect of any period subsequent to 31 December 2018.

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 Group discloses the unaudited supplementary financial information as follows:

1 Liquidity coverage ratio and leverage ratio

(a) Liquidity coverage ratio

	At 31 December 2016	Average for the year ended 31 December 2016
Liquidity coverage ratio (RMB and foreign currency)	106.33%	95.67%

	At 31 December 2017	Average for the year ended 31 December 2017
Liquidity coverage ratio (RMB and foreign currency)	113.34%	95.61%

	At 31 December 2018	Average for the year ended 31 December 2018
Liquidity coverage ratio (RMB and foreign currency)	226.64%	149.85%

Pursuant to the Administrative Measures on the Liquidity Risk of Commercial Banks (Trial), the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018. During the transitional period, such ratio shall reach 80% and 90% by the end of 2016 and 2017, respectively.

(b) Leverage Ratio

	At 31 December 2016	At 31 December 2017	At 31 December 2018
Leverage Ratio	4.70%	6.40%	6.49%

Pursuant to the Administrative Measures on the Leverage Ratio of Commercial Banks issued by the former CBRC and was effective since 1 April 2015, a minimum leverage ratio 4% is required.

The above liquidity coverage ratio and leverage 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 2016			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	40,077	72	75	40,224
Spot liabilities	(40,043)	(73)	(83)	(40,199)
Net position	34	(1)	(8)	25

	At 31 December 2017			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	34,236	65	74	34,375
Spot liabilities	(33,739)	(67)	(84)	(33,890)
Net position	497	(2)	(10)	485

	At 31 December 2018			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	35,931	54	128	36,113
Spot liabilities	(35,310)	(56)	(138)	(35,504)
Net position	621	(2)	(10)	609

The Group has no structural position at the end of each of the Relevant Periods.

3 International claims

The Group 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, balances with the central bank, amounts due from banks and other financial institutions.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of 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 2016		
	Banks and other financial institutions	Non-bank private sector	Total
Asia Pacific	27	–	27
Europe	67	–	67
Total	94	–	94

	At 31 December 2017		
	Banks and other financial institutions	Non-bank private sector	Total
Asia Pacific	25	–	25
Europe	70	–	70
Total	95	–	95

	At 31 December 2018		
	Banks and other financial institutions	Non-bank private sector	Total
Asia Pacific	27	–	27
Europe	67	–	67
Total	94	–	94

4 Gross amount of overdue loans and advances

	At 31 December		
	2016	2017	2018
Gross loans and advances which have been overdue with respect to either principal or interest for periods of			
– between 3 and 6 months (inclusive)	196,901	63,277	271,999
– between 6 months and 1 year (inclusive)	176,296	294,364	561,715
– between 1 year and 3 years (inclusive)	538,995	667,959	827,400
– over 3 years	25,994	327,843	150,873
Total	938,186	1,353,443	1,811,987
As a percentage of total gross loans and advances			
– between 3 and 6 months (inclusive)	0.29%	0.07%	0.27%
– between 6 months and 1 year (inclusive)	0.26%	0.30%	0.55%
– between 1 year and 3 years (inclusive)	0.79%	0.69%	0.81%
– over 3 years	0.04%	0.34%	0.15%
Total	1.38%	1.40%	1.78%

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.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group 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 Group's consolidated net tangible assets attributable to Shareholders of the Bank as of 31 December 2018, as if the Global Offering had taken place on 31 December 2018.

The preparation of the unaudited pro forma statement of adjusted consolidated net tangible assets is for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the Group's consolidated net tangible assets attributable to Shareholders of the Bank had the Global Offering been completed as of 31 December 2018 or at any future date.

	Consolidated net tangible assets attributable to Shareholders of the Bank as of 31 December 2018	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets attributable to Shareholders of the Bank	Unaudited pro forma adjusted consolidated net tangible assets per Share	
	RMB Million	**RMB Million**	**RMB Million**	**RMB**	**HK$**
	(Note (1))	*(Notes (2)&(5))*	*(Note (3))*	*(Note (4))*	*(Notes (5)&(6))*
Base on an Offer Price of HK$3.80 per H Share	15,830.3	2,777.7	18,608.0	3.25	3.69
Base on an Offer Price of HK$3.98 per H Share	15,830.3	2,911.8	18,742.1	3.27	3.72

Notes:

(1) The consolidated net tangible assets attributable to Shareholders of the Bank as of 31 December 2018 are based on the consolidated total equity attributable to Shareholders of the Bank of RMB15,969.9 million, after deduction of intangible assets of RMB139.6 million.

(2) The estimated net proceeds from the Global Offering for the purpose of unaudited pro forma adjusted consolidated net tangible assets are based on the Offer Price of HK$3.80 per H Share (being the low-end of the proposed Offer Price range) and HK$3.98 per H Share (being the high-end of the proposed Offer Price range) and there are 860,000,000 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 RMB1.9 million which have already been charged to consolidated 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 consolidated net tangible assets attributable to Shareholders of the Bank do not take into account the financial results or other transactions of the Group subsequent to 31 December 2018.

(4) The unaudited pro forma adjusted consolidated 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 5,728,000,000 Shares in issue assuming that the Global Offering has been completed on 31 December 2018, 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 consolidated net tangible assets per Share are translated into or from Renminbi at the rate of RMB0.88000 to HK$1.00, the exchange rate set by the PBOC prevailing on 20 June 2019. 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.

(6) The unaudited pro forma adjusted consolidated net tangible assets per Share does not take into account the declaration of cash dividends of RMB486.8 million subsequent to 31 December 2018, details of which are disclosed in the section headed "Summary – Dividend and Dividend Policy" in this prospectus. Had such dividend been taken into account, the unaudited pro forma adjusted consolidated net tangible assets per Share would be approximately HK$3.59 (based on an Offer Price of HK$3.80 per H Share) and approximately HK$3.63 (based an Offer Price of HK$3.98 per H Share) respectively.

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 Group'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 Jinshang Bank Co., Ltd.

We have completed our assurance engagement to report on the compilation of pro forma financial information of Jinshang Bank Co., Ltd. (the "Bank") and its subsidiary (collectively the "Group") 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 2018 and related notes as set out in Part A of Appendix III to the prospectus dated 28 June 2019 (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 Group's financial position as at 31 December 2018 as if the Global Offering had taken place at 31 December 2018. As part of this process, information about the Group's financial position as at 31 December 2018 has been extracted by the Directors from the Group'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 Group 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 2018 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 Group, 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 Group; 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
28 June 2019

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 own business, see "Supervision and Regulation" in this prospectus.

PRC LAWS AND REGULATIONS

A. The PRC Legal System

The PRC legal system is based on the PRC Constitution (the "**Constitution**") and is made up of written laws, administrative regulations, local regulations, 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 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 People's Republic of China ("**Legislation Law**"), the National People's Congress ("**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 formulates and amends laws other than those required to be enacted by the NPC and to supplement and amends 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 and their standing committees may formulate local regulations based on the specific circumstances and actual needs of their respective administrative areas, provided that such local regulations do not contravene any provision of the Constitution, laws or administrative regulations. The people's congresses of cities divided into districts and their respective standing committees may formulate local regulations on aspects such as urban and rural construction and management, environmental protection and historical and cultural protection based on 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 divided into 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 resolve the issue. People's congresses of national autonomous areas have the power to enact autonomous regulations and separate regulations in light of the political, economic and cultural characteristics of the ethnic groups in the areas concerned.

The ministries and commissions of the State Council, PBOC, NAO and the subordinate institutions with administrative functions directly under the State Council may formulate departmental rules and regulations within the jurisdiction of their respective departments based on the laws and administrative regulations, and the decisions and orders of the State Council. Provisions of departmental rules should be the matters related to the enforcement of the laws and administrative regulations, and the decisions and orders of the State Council. The people's governments of the provinces, autonomous regions, municipalities and cities or autonomous prefectures divided into districts may formulate rules and regulations based on the laws, administrative regulations and local regulations of such provinces, autonomous regions and municipalities.

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解釋工作的決議》) passed on June 10, 1981, 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 of the procuratorates should be interpreted by the Supreme People's Procuratorate; and issues related to laws other than those mentioned above 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.

B. 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 PRC judicial system is made up of the Supreme People's Court, the local people's courts, the military courts and other special people's courts. The local people's courts are divided into three levels, namely, the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts may set up civil, criminal and economic divisions, and certain people's courts based on the status of the region, population and cases. The intermediate people's courts have divisions similar to those of the basic people's courts and may set up other special divisions, such as the intellectual property division, if needed. 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 lower levels 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, i.e., 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 and those of the first instance of the Supreme People's Court are 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 come into effect in any people's court at a lower level, or the presiding judge of a people's court discovers an error in a final and binding judgment or ruling which has come into 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 three times 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 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 or a foreign-invested enterprise or organization is generally given the same litigation rights and obligations as a citizen or legal person of the PRC. Should a foreign court limit the litigation rights of PRC citizens or enterprises, the PRC court may apply the same limitations to the citizens and enterprises of such foreign country. A foreign individual, foreign-invested enterprise or 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 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 and 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 against such party.

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. Likewise, if the PRC has entered into either a treaty relating to judicial enforcement with the relevant foreign country or a relevant international convention, a foreign judgment or ruling may also be recognized and enforced in accordance with the PRC enforcement procedures by a PRC court based on equitable principles unless the people's court considers that the recognition or enforcement of such judgment or ruling would violate the basic legal principles of the PRC, its sovereignty or national security, or would not be in public interest.

C. The PRC Company Law, the Special Regulations and the Mandatory Provisions

The PRC Company Law was adopted by the Standing Committee of the Eighth NPC at its Fifth Session on 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 newly revised PRC Company Law has been implemented since October 26, 2018.

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》) (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 that the provisions should be incorporated in the articles of association of joint stock limited companies to be listed an 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 ("**company**") refers to a corporate legal person incorporated 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 may 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 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 State Council decisions provide otherwise 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 supervisory board 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 the law or administrative regulations.

Where companies are incorporated by subscription, not less than 35% of their total number of shares must be subscribed for by the promoters, unless otherwise provided for by 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 law, and underwriting agreements shall be entered into. 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 law must be engaged to conduct a capital verification and furnish a report thereon. The promoters shall convene an inauguration meeting within 30 days following the full payment of subscription monies. The inauguration meeting shall be formed by the promoters and subscribers. Where the shares issued remain undersubscribed by the cut-off date stipulated in the share offering prospectus, or where the promoter fails to convene an inauguration meeting within 30 days after the subscription monies for the shares issued have been fully paid up, the subscribers may demand that the promoters refund the subscription monies so paid together with the interest at bank rates of a deposit for the same period. Within 30 days of the conclusion of the inauguration meeting, the board of directors shall apply to the company 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 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 or intellectual property rights or land use rights which can be appraised with monetary value and transferred lawfully, except for assets which are prohibited from being contributed as capital by 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 nominal value of the share, but may not be less than the nominal value.

A company must obtain the approval of CSRC to offer its shares to 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 (including 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, other than these regions mentioned above, are known as domestic shares. Under the Special Regulations, upon approval of 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 shares proposed to be issued in addition to the number of underwritten shares. The issuance of reserved shares is considered as part of the issuance.

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 CSRC, a new share offering prospectus and financial accounting report must be published and a subscription form must be prepared. After the new share issue of the company has been paid up, the change must be registered with the relevant administration bureau for industry and commerce 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 general meeting;

(iii) The company shall notify its creditors of the reduction in share capital within 10 days and publish a related announcement in newspapers within 30 days of the resolution approving the reduction being passed;

(iv) The creditors of the company may within the statutory time limit require the company to repay its debts or provide guarantees for covering the debts; and

(v) The company must apply to the relevant administration bureau for industry and commerce for change in registration due to reduction in registered capital.

Repurchase of Shares

A company may not repurchase its own shares other than for one of the following purposes:

(i) reduction of its registered capital;

(ii) merger with another company which holds its shares;

(iii) use of its shares for carrying out an employee stock ownership plan or equity incentive plan;

(iv) request from shareholders who object to a resolution of a shareholders' general meeting on merger or division of the company to acquire their shares by the company;

(v) use of shares for conversion of convertible corporate bonds issued by a listed company; and

(vi) the share buyback is necessary for a listed company to maintain its company value and protect its shareholders' equity.

A resolution of a shareholders' general meeting is required for a share buyback by a company under either of the circumstances stipulated in item (i) or item (ii) above; for a company's share buyback under any of the circumstances stipulated in item (iii), item (v) or item (vi) above, a resolution of the company's board of directors shall be made by a two-third majority of directors attending the meeting according to the provisions of the company's articles of association or as authorized by the shareholders' 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 Securities Law of the People's Republic of China. 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 and regulations. 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 at a shareholders' general meeting or a meeting of board of directors that has not been convened in compliance with the laws 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 supervisory board 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 dismiss 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 supervisory board or supervisors;

(v) to review and approve the company's annual financial budgets and final accounts;

(vi) to review and approve the company's profit distribution proposals and loss recovery proposals;

(vii) to decide on any increase or reduction of the company's registered capital;

(viii) to decide on the issue of corporate bonds;

(ix) to decide on 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.

A shareholders' general meeting is required to be held once every year. An extraordinary general meeting is required to be held within two months of the occurrence of any of the following:

(i) the number of directors is less than the number stipulated by the laws or less than two thirds of the number specified in the articles of association;

(ii) the 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 deems necessary;

(v) the supervisory board 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 supervisory board shall convene and preside over such meeting in a timely manner. If the supervisory board fails to convene and preside over such meeting, shareholders individually or in aggregate holding 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 notice of the general meeting stating, among other things, matters to be considered at the meeting shall be given to all shareholders 45 days before the meeting. A shareholder who intends to attend the meeting shall deliver his written reply regarding his attendance of the meeting to the company 20 days before the date of the meeting. The board of directors shall notify other shareholders within two days of receiving such proposal and table it for review by the general meeting. Provisional proposals shall relate to specific subjects and matters for resolution within the authority of the general meeting. A shareholders' general meeting shall not make any resolution in respect of any matters not set out in the above two types of notices. Holders of bearer share certificates who wish to attend a shareholders' general meeting shall deposit their share certificates with the company five days before the meeting and till the conclusion 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 within five days of the last day for receipt of the replies notify shareholders again by announcement of the matters to be considered at the meeting and the date and venue of the meeting, and the general meeting may be held by the company thereafter.

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 matters 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 at least two-thirds of the voting rights held by the shareholders present at the meeting. Where the PRC Company Law and the articles of association provide that the transfer or acquisition of significant assets or the provision of external guarantees by the company must be approved by way of resolution of the general meeting, the directors shall convene a shareholders' general meeting promptly to vote on such matters.

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 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 no less than two-thirds of the voting rights held by shareholders 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 reelected 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 proposal 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 general manager and decide on his/her remuneration and, based on the general manager's recommendation, to appoint or dismiss any deputy general manager and financial officer of the company and to decide on their remunerations;

(x) to formulate the company's basic management system; and

(xi) to exercise any other authority stipulated in the articles of association.

Meetings of the board 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 supervisory board. 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 board meetings 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 that his/her representative has. At the same time, 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 meeting minutes.

If a resolution of the board of directors violates the 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 less 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 less 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 stipulates other circumstances that a person is disqualified from acting as a director of a company, including: (1) the case was pending due to investigation by the judiciary for violation of the criminal law; (2) a person cannot be acted as the a leader of the company according to laws and administrative regulations; (3) non-natural persons; and (4) a person has been ruled as violations of the provisions of relevant securities laws and regulations by the competent authority, involving fraud or dishonesty, and it does not exceed five years from the date of the ruling.

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 nominated by more than half of the directors shall perform his/her duties.

Board of Supervisors

A company shall have a board of supervisors composed of not less than three members. The supervisory board consists of representatives of the shareholders and an appropriate proportion of representatives of the company's staff. The actual proportion shall be determined in the articles of association, provided that the proportion of representatives of the company's staff shall not be less than one-third. Representatives of the company's staff at the board of supervisors shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise. The supervisory board shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the supervisory board shall be elected by more than half of the supervisors. Directors and senior management shall not act concurrently as supervisors.

Pursuant to the Reply of the Overseas Listing Department of CSRC and the Production System Department of the State Commission for Restructuring the Economic System on Opinions Concerning the Supplement and Amendment to Articles of Association by Companies to Be Listed in Hong Kong (《中國證監會海外上市部、國家體改委生產體制司關於到香港上市公司對公司章程作補充修改的意見的函》), the chairman of the supervisory board shall be elected by more than two-thirds of the supervisors. Directors and senior management shall not act concurrently as supervisors.

The chairman of the supervisory board shall convene and preside over supervisory board meetings. Where the chairman of the supervisory board is incapable of performing or is not performing his/her duties, the vice chairman of the supervisory board shall convene and preside over supervisory board meetings. Where the vice chairman of the supervisory board is incapable of performing or is not performing his/her duties, a supervisor nominated by more than half of the supervisors shall convene and preside over supervisory board meetings.

Each term of office of a supervisor is three years and he/she may serve consecutive terms if reelected. A supervisor shall continue to perform his/her duties as a supervisor in accordance with the laws, administrative regulations and the articles of association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office or if the resignation of supervisors results in the number of supervisors being less than the quorum.

The supervisory board may exercise its powers:

(i) to review the company's financial position;

(ii) to supervise the directors and senior management in their performance of their duties and to propose the removal of directors and senior management who have violated laws, regulations, the articles of association or shareholders' resolutions;

(iii) when the acts of a director or 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 supervisory board may investigate any irregularities identified in the operation of the company and, when necessary, may engage an accounting firm to assist its work at the cost of the company.

Manager and Senior Management

Pursuant to the PRC Company Law, a company shall have a general manager who shall be appointed or removed by the board of directors. The general manager, who reports to the board of directors, may exercise his/her powers:

(i) to manage the production, operation and administration of the company and arrange for the implementation of the resolutions of the board 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 general manager's powers shall also be complied with. The general manager shall be present at meetings of the board of directors. However, the general 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 general 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, General 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 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 or the board of directors;

(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;

(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 law, regulation 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 supervisory board, or if a limited liability company has no board of supervisors, supervisors, without impeding the discharge of duties by the supervisory board or supervisors.

Where a director or senior management contravenes any law, regulation 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 no less than 1% of the company's shares consecutively for at least 180 days may request in writing that the board of supervisors institutes litigation at a people's court on its behalf. Where the supervisory board violates the laws or administrative regulations or the articles of association in the discharge of 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 this written request from the shareholder(s), or fails to institute litigation within 30 days of the date of receiving the request, or in case of emergency where failure to institute litigation immediately will result in irrecoverable damage to the company's interests, 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, general manager and other senior management shall have duty of loyalty to 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

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 50% or more 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 competent governmental department 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 on their respective meetings. The company should provide true and complete accounting evidence, accounting books, financial and accounting reports and other accounting information to the newly-engaged accounting firm without any refusal or withholding or falsification of information.

The Special Regulations require a company to engage an independent qualified accounting firm to audit the company's annual reports and to review and check other financial reports of the company. 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 any dividend and other distribution to holders of H Shares shall be declared and calculated in RMB and paid in foreign currency. Under the Mandatory Provisions, a company shall make foreign currency payments to shareholders through receiving agents.

Amendments to the Articles of Association

Pursuant to PRC Company Law, the resolution of a shareholders' general meeting regarding any amendment to a company's articles of association requires affirmative votes by at least 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.

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 person 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 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 of its establishment, and publish an announcement in newspapers within 60 days.

A creditor shall lodge his claim with the liquidation committee within 30 days of receipt of the notification or within 45 days of the date of the announcement if he has not received any notification.

A creditor shall report all matters relevant to the creditors rights he has claimed 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 submit a liquidation report to the shareholders' general meeting or a people's court for confirmation of its completion. Following such confirmation, the report shall be submitted to the 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 CSRC. Subject to approval of the company's plans to issue overseas-listed foreign shares and domestic shares by CSRC, the board of directors of the company may make arrangement to implement such plans for issuance of the foreign invested shares and domestic shares, respectively, within fifteen (15) months from the date of approval by CSRC.

At the same time, according to the provisions of the Mandatory Provisions, if the company's shares determined by the company's issuance plan are not fully issued, new shares shall not be issued other than the issuance plan. 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 Share 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

A merger agreement shall be signed by merging companies and the involved companies shall prepare respective balance sheets and inventory of assets. The companies shall within 10 days of the date of passing the resolution approving the merger notify their respective creditors and publicly announce the merger within 30 days. A creditor may, within 30 days of receipt of the notification, or within 45 days of the date of the announcement if he has not received the notification, request the company to settle any outstanding debts or provide relevant guarantees.

In case of a merger, the credits and debts of the merging parties shall be assumed by the surviving or the new company. In case of a 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 of 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 for industry and commerce.

In accordance with the laws, cancellation of a company shall be registered when a company is dissolved and incorporation of a company shall be registered when a new company is incorporated.

D. The PRC Securities Laws, Regulations and Regulatory Regimes

The PRC has promulgated a 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 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 CSRC. 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 CSRC and reformed 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 and 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 and August 31, 2014, respectively. It was the first national securities law in the PRC that comprehensively regulates activities in the PRC securities market. It is divided into 12 chapters and 240 articles with contents include, 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. Article 238 of the PRC Securities Law provides that domestic enterprises must obtain prior approval from the State Council Securities regulatory authorities to list shares outside the PRC. Currently, the issue and trading of foreign issued securities (including shares) are principally governed by the rules and regulations promulgated by the State Council and CSRC.

E. Arbitration and Enforcement of Arbitral Awards

The Arbitration Law of the PRC (《中華人民共和國仲裁法》) (the "**PRC Arbitration Law**") was enacted by the Standing Committee of the NPC on 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 Hong Kong Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of a company listed in Hong Kong and, in the case of the Hong Kong Listing Rules, also in contracts 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 CIETAC or 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 award, the other party to the award may apply to a people's court for its enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration commission if there is any procedural irregularity (including irregularity in the composition of the arbitration committee, the jurisdiction of the arbitration commission, or the making of an award on matters beyond the scope of the arbitration agreement).

Any party seeking to enforce an arbitral award of a foreign affairs arbitration organ of the PRC against a party who or whose property is not located within the PRC may apply to a foreign court with jurisdiction over the case for 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 convention 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; 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 SAR (《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 China. Where a court of the Mainland finds that enforcement in the Mainland of the ruling made by the Hong Kong arbitral authority will violate public interests of the Mainland, execution of the ruling may be ignored.

SUMMARY OF MATERIAL DIFFERENCES BETWEEN HONG KONG AND PRC COMPANY LAW

The Hong Kong law applicable to a company incorporated in Hong Kong is based on the Companies Ordinance and the Companies (Winding up and Miscellaneous Provisions) Ordinance and is supplemented by common law and the rules of equity that are applicable to Hong Kong. As a joint stock limited company established in the PRC that is seeking a listing of shares on the Hong Kong Stock Exchange, 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.

Incorporation

Under 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 March 1, 2014 has removed the general provision on minimum registered capital, except that laws, administrative regulations and State Council decisions have separate provisions on paid-in registered capital and the minimum registered capital, in which case the company should follow such provisions.

Hong Kong law does not prescribe any minimum capital requirement for a Hong Kong company.

Share Capital

Under Hong Kong law, the directors of a Hong Kong company may, with the prior approval of the shareholders if required, issue new shares of the company. The PRC Company Law provides that any increase in the Bank's registered capital must be approved by its shareholders' general meeting and the relevant PRC governmental and regulatory authorities.

Under the PRC Securities Law, a company which is approved by the relevant securities regulatory authority to list its shares on a stock exchange must have a total share capital of not less than RMB30 million. There is no such restriction on companies incorporated in Hong Kong under Hong Kong law.

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 undervaluation 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 or 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 held by its directors, supervisors and senior management transferred each year during their term of office shall not exceed 25% of the total shares they held in the company, and the shares they held in the company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after 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 "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

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 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 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. 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, but the Special Regulations and the Mandatory Provisions provide that general meetings may only be convened when replies to the notice of that meeting have been received from shareholders whose shares represent at least 50% of the voting rights at least 20 days before the proposed date of the meeting, or if the number of voting shares represented by shareholders who wish to attend the meeting fails to reach 50% of the total number of issued shares of the company, the company shall within five days notify its shareholders again by way of a public announcement and the shareholders' general meeting may be held thereafter.

Voting

Under Hong Kong company law, an ordinary resolution is passed by more than half of the votes and a special resolution is passed by no less than 75% of such votes. Under the PRC Company Law, the passing of any resolution requires affirmative votes of shareholders representing more than half of the voting rights represented by the shareholders who attend the general meeting except in cases of proposed amendments to a company's articles of association, increase or decrease of registered capital, merger, division or dissolution, or change of corporation form, which require affirmative votes of shareholders representing more than two-thirds of the voting rights represented by the shareholders who attend the general meeting.

Financial Disclosure

Under the PRC Company Law, a joint stock limited company is required to make available at the company for inspection by shareholders its financial report 20 days before its shareholders' annual general meeting. In addition, a joint stock limited company of which the shares are publicly offered must publish its financial report. The Companies Ordinance requires a company incorporated in Hong Kong to send to every shareholder a copy of its financial statements, auditors' report and directors' report, which are to be presented before the company in its annual general meeting, not less than 21 days before such meeting. A joint stock limited liability company is required under the PRC law to prepare its financial statements in accordance with the PRC GAAP. The Mandatory Provisions require that a company must, in addition to preparing financial statements according to the PRC GAAP, have its financial statements prepared and audited in accordance with international or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC GAAP. The 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 Directors and Shareholders

The PRC Company Law gives shareholders the right to inspect the company's articles of association, minutes of the shareholders' general meetings and financial and accounting reports. Under the articles of association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and directors which is similar to the shareholders' rights of Hong Kong companies under Hong Kong law.

Receiving Agent

Under the PRC Company Law and Hong Kong law, dividends once declared are debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while under the PRC law this limitation period is two years. The Mandatory Provisions require the relevant company to appoint a trust company registered under the Hong

Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of oversea listed foreign 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 in the shareholders' general meeting by shareholders.

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 law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is 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 knowledge and approval of the shareholders' general meeting, 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 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) Hong Kong Financial Reporting Standards; or (b) IFRS; or (c) China Accounting Standards for Business Enterprises ("**CASBE**") in the case of a PRC issuer that has adopted CASBE for the preparation of its annual financial statements.

Process Agent

A listed company is required to appoint and maintain a person 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 and the Listing Rules.

Documents available 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 law, a PRC issuer is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owed in respect of the H shares to be held, pending payment, in trust for the holders of such H shares.

Statements in Share Certificates

A PRC issuer is required to ensure that all of its listing documents and share certificates include the statements stipulated below and to instruct and cause each of its share registrars not to register the subscription, purchase or transfer of any of its shares in the name of any particular holder unless and until such holder delivers to the share registrar a signed form in respect of such shares bearing statements to the following effect, that the acquirer of shares:

– agrees with the company and each shareholder, and it agrees with each shareholder, to observe and comply with the PRC Company Law, the Special Regulations and its articles of association;

– agrees with the company, each shareholder, director, supervisor, manager and other senior management and it (acting both for the company and for each director, supervisor, manager and other senior management) 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 the 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 law 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 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 our Articles, the principal objective of which is to provide investors with an overview of our Articles.

As of 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 our Articles are available for inspection as mentioned in "Appendix VIII – Documents Delivered to the Registrar of Companies and Available for Inspection".

Our Articles were adopted by our Shareholders in the Shareholders' general meeting held on December 17, 2018 and were approved by CBIRC Shanxi Office on January 4, 2019. Our Articles 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 our Articles empowering the Directors to allot and issue shares.

To increase the 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 (4) 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. The disposal of fixed assets referred to in this article 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 entered into by the Bank 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 banks (subsidiary companies) of the Bank;

(c) remuneration for those providing other services for managing the Bank and its subsidiary banks (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.

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 circumstance:

(a) loans or loan guarantees provided by the Bank to its subsidiary banks (subsidiary companies);

(b) loans, loan guarantees or other funds provided by the Bank to the Directors, Supervisors, President and other 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 for the Bank;

(c) loans and loan guarantees provided by the Bank to the relevant Directors, Supervisors, President and other senior management personnel of the Bank and their connected persons, provided that the loans and loan guarantees are provided on normal commercial terms and conditions.

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.

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.

The acts listed below are not prohibited by the preceding paragraph, subject to any prohibitions by the relevant laws, administrative regulations, departmental rules or rules governing securities of the place where shares of our Bank are listed:

(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;

(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).

"Financial assistance" referred to in our Articles 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 novation of, 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 our Articles shall include the obligations of an obligor which have arisen by making an agreement (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.

DISCLOSURE OF INTERESTS IN CONTRACTS WITH OUR BANK

The Directors, Supervisors, President and other senior management personnel of the Bank having any direct or indirect material conflict of interests in any executed or proposed contracts, transactions or arrangements (except the employment contracts between the Bank and its Directors, Supervisors, President and other 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, President and other 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, President and other senior management personnel are in breach of their obligations.

If the connected persons (as defined under the Hong Kong Listing Rules) of a Director, Supervisor, President and other senior management personnel of the Bank has any conflict of interests with any contracts, transactions or arrangements, the Director, Supervisor, President and other 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, President and other senior management personnel of the Bank have provided a written notice to the Board and board of Supervisors 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, President and other 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 by Shareholders in a Shareholders' general meeting. Please see "– Emoluments and Compensation for Loss of Office".

APPOINTMENT, REMOVAL AND RETIREMENT

The qualifications of the Directors shall be verified by the banking regulatory authorities under the State Council. Directors shall be elected or removed from office by Shareholders at a general meeting. The term of office of a Director shall be three years, and a Director may be re-elected and re-appointed upon expiry of his/her term of office.

The Nomination and Remuneration and Human Resource Committee of the Board, Shareholders individually or jointly holding above 1% of the Bank's total shares in issue with voting rights can nominate candidates for independent Directors to the Board. The term of service of an independent Director shall be three years. Such term of office of independent Directors shall not be more than six years on an accumulative basis.

The Board of the Bank shall be composed of fifteen (15) to Seventeen (17) Directors, of which the independent Directors shall account for no less than one third of the total number of Directors and the number of independent Directors shall be no less than three (3) at any time. The Board shall have one chairman, who shall be elected by more than half of all Directors.

No person shall hold the position of Director, Supervisor, or senior management personnel of the Bank in one of the following circumstances:

(a) a person without or with limited capacity for civil conduct;

(b) 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;

(c) a Director, factory Director or manager of bankrupt and liquidated companies or enterprises whereby such person was personally liable for the bankruptcy of such companies or enterprises, and three (3) years have not elapsed from which the liquidation of the company or enterprise was completed;

(d) a legal representative of companies or enterprises which have had their business licenses revoked and the business of such companies or enterprises were compulsorily closed down due to a violation of laws in which such person was personally liable, and three (3) years have not elapsed from which the business license of the company or enterprise was revoked;

(e) a person with relatively large amounts of due and outstanding debt;

(f) a person under investigation by judicial authorities for suspected violations of criminal law and the investigation is still ongoing;

(g) a person banned from holding leadership positions as stipulated by laws and administrative regulations;

(h) a non-natural person;

(i) a person judged by competent authorities as having violated the provisions of securities laws and regulations, the violation involves fraudulent or dishonest acts, and less than five (5) years have elapsed since the ruling;

(j) circumstances under which a person banned from holding the position of director, supervisor or senior management personnel as stipulated by the law, administrative regulations, departmental rules, rules governing securities of the place where shares of our Bank are listed and our Articles.

The validity of any act by a Director, President or other 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

Our Articles do not specifically provide for the manner in which borrowing powers may be exercised nor do they contain any specific provision in respect of the manner in which such borrowing powers may be amended, except for:

(a) provisions which authorize the Board to formulate proposals on the issue and listing of bonds and other securities issued by the Bank; and

(b) provisions which provide that the issuance and listing of any class of bonds or other securities of the Bank shall be approved by the Shareholders' general meeting by a special resolution.

AMENDMENTS TO THE ARTICLES OF OUR BANK

Our Articles may be amended by special resolution of the Shareholders in a Shareholders' general meeting. Any amendments to be made to the Articles pursuant to a resolution of the Shareholders' general meeting shall be subject to the approval of the competent authorities, and shall obtain the approval of the competent authorities; if registration matters are involved, the Bank shall apply for registration of the changes in accordance with the law.

CHANGE OF RIGHTS OF EXISTING SHARES OR CLASSES OF SHARES

If the Bank proposes to change or nullify certain rights of a certain class of Shareholders, this proposal should be passed by a special resolution at the Shareholders' general meeting and passed at the meeting convened according to our Articles for the related class of Shareholders.

The rights of a certain class of Shareholders shall be deemed to be changed or nullified in the following circumstances:

(a) to increase or reduce in the quantity of the shares of that class, or increase or reduce the quantity of the shares of other class which enjoy the same or more voting rights, distribution rights or other privileges;

(b) to convert part or whole of the shares of that class into other class(es), convert part or whole of the shares of other class(es) into that class, or grant such conversion rights;

(c) to nullify or reduce the rights of that class of shares to receive payable dividends or cumulative dividends;

(d) to reduce or nullify the privileged rights of that class of shares to acquire dividends or obtain distribution of assets during liquidation of the Bank;

(e) to increase, nullify or reduce the conversion, option, voting, transfer or privileged allotment rights of that class of shares or the rights of such class of shares to obtain securities issued by the Bank;

(f) to nullify or reduce the rights of that class of shares to receive amounts payable by the Bank in a particular currency;

(g) to establish new class(es) of shares which enjoy the same or more voting rights, distribution rights or other privileges as compared with that class of shares;

(h) to restrict the transfer and ownership of that class of shares, or increase the restrictions;

(i) to grant the share subscription options or share conversion options of that or another class of shares;

(j) to increase the rights or privileges of other class(es) of shares;

(k) any restructuring scheme of the Bank that may result in the assumption of disproportionate responsibilities by different classes of Shareholders during the restructuring;

(l) to revise or nullify the provisions in our Articles.

A resolution of the meeting for a certain class of Shareholders shall be adopted by above two-thirds of the voting shares represented by Shareholders of that class present at the meeting.

When convening a meeting for a certain class of Shareholders, the Bank shall issue a written notice, forty-five (45) days prior to the date of the meeting, to all Shareholders in the relevant class whose names appear on the register of Shareholders, stating the matters to be considered at the meeting and the date and venue of the meeting.

The notice of a meeting for a certain class of Shareholders only needs to be delivered to the Shareholders entitled to vote at that meeting.

Unless required otherwise by our Articles, the procedures for convening a meeting for a certain class of Shareholder shall be the same as the procedures for the Shareholders' general meeting to the extent practical, and the provisions in our Articles relating to the procedure to convene a Shareholders' general meeting shall apply to the meeting for class Shareholders.

Apart from other classes of Shareholders, the Shareholders of domestic shares and overseas listed foreign shares are deemed to be Shareholders of different classes.

The special voting procedure at a Shareholders' general meeting for class Shareholders shall not apply for the following cases:

(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 twelve (12) months, provided that the amount of each class of shares intended to be issued is not more than 20% of the issued and 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 fifteen (15) months upon the date of approval from the securities regulatory and administrative authorities of the State Council;

(c) the relevant regulatory authorities such as banking regulatory and administrative authorities and the securities regulatory and administrative authorities of the State Council have given approval for unlisted shares held by the Shareholders of the Bank to be transferred to be overseas listed shares and to be traded in overseas stock exchanges.

For the purposes of the class rights provisions of our Articles, the meaning of "the Shareholders with conflict of interests" is:

(a) if the Bank has made a repurchase tender offer to all Shareholders in the same proportion in accordance with our Articles 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 our Articles;

(b) if the Bank has repurchased shares under an off-market agreement in accordance with our Articles, "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.

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 meeting.

Special resolutions shall be approved by above two-thirds of voting rights held by the Shareholders (including their proxies) attending the meeting.

VOTING RIGHTS

A Shareholder (including his/her proxy) shall exercise his/her voting rights based on the number of shares with voting rights held. Each share shall have one (1) vote.

Voting at a Shareholders' general meeting shall be taken by way of registered poll, save for resolutions on procedures for Shareholders' general meeting or administrative matters which can be resolved on by the presider of the meeting based on the principle of honesty and voted on by a show of hands.

REQUIREMENT FOR ANNUAL GENERAL MEETINGS

The annual general meeting shall be held once a year within six (6) months after the previous financial year end.

ACCOUNTS AND AUDIT

The Bank shall formulate its financial accounting system in accordance with the laws, administrative regulations and PRC accounting standards formulated by Financial Authority under the State Council.

The Board of our Bank has an Audit Committee which is responsible to the Board.

The Bank shall prepare its financial statements in accordance with PRC accounting standards and regulations; as well as in accordance with international accounting standards or the accounting standards required by securities regulatory authorities of the locality in which the Bank's shares are listed. 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 financial year, the Bank shall adopt the one with the lower after-tax profits out of the aforesaid two financial statements.

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.

The financial report of our Bank shall be made available at our Bank 20 days or earlier before the convening of the annual general meeting for inspection by shareholders. Each Shareholder of our Bank shall be entitled to obtain the financial reports mentioned in our Articles.

Except as otherwise provided in our Articles, the Bank shall send the aforesaid report or report of the Board along with the balance sheet (including all documents shall be attached to balance sheet according to law) and income statement or income and expenditure statement or abstract of financial report to each Shareholder of overseas listed shares by personal delivery or pre-paid post at least twenty-one (21) days prior to the convening of the annual general meeting of Shareholders. The address of the recipients shall be the address registered in the register of Shareholders. The Bank may also send or dispatch the aforesaid reports to each holder of overseas listed shares through the Bank's website or the website of the Hong Kong Stock Exchange or other websites provided for from time to time according to the Hong Kong Listing Rules, provided no laws, administrative regulations or listing rules of the places where the shares of the Bank are listed are violated. If the securities regulators in the place where the Shares are listed have regulations otherwise, such regulations shall prevail.

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 (2) 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;

(b) the outstanding loss of the Bank is at least one-third of the Bank's total paid-up share capital;

(c) shareholders who individually or jointly hold above 10% of the voting shares of the Bank have requested to convene the meeting in writing, the aforesaid number of shares held shall be calculated as of the date of request in writing made by the Shareholders;

(d) the Board deems it necessary to convene the meeting;

(e) above half of the independent Directors propose to the Board to convene the meeting (if there are only two independent Directors, then the two independent Directors unanimously propose to convene);

(f) the Board of Supervisors proposes to convene the meeting;

(g) above half of the external Supervisors propose to convene the meeting (if there are only two external Supervisors, then the two external Supervisors unanimously propose to convene);

(h) any other circumstances as stipulated by the laws, administrative regulations, departmental rules, rules governing securities of the place where shares of our Bank are listed or our Articles.

When the Bank is to convene a general meeting, the conveners shall issue a written notice, forty-five (45) days prior to the date of the meeting, to all Shareholders whose names appear on the register of Shareholders, stating the matters to be considered at the meeting and the date and venue of the meeting. Shareholders who wish to attend the Shareholders' general meeting shall provide a written reply of attendance to the Bank twenty (20) days before the general meeting is convened.

The Bank shall calculate the proportion of voting shares held by Shareholders who wish to attend the meeting based on the written replies received twenty (20) days before the Shareholders' general meeting that is convened by the Bank. Where the proportion of voting shares held by Shareholders who wish to attend the meeting reaches above half of the total voting shares of the Bank, the Bank will convene the Shareholders' general meeting. If this threshold is not met, the Bank shall inform the Shareholders within five (5) days via an announcement stipulating the matters to be considered and the venue, date and time of the meeting. Once this announcement is made, the Bank may then proceed to convene the Shareholders' general meeting.

The notice of a Shareholders' general meeting shall meet the following requirements:

(a) be made in writing;

(b) specify the venue, date and time of the meeting;

(c) specify state matters to be discussed at the meeting;

(d) all necessary information and explanation to enable Shareholders to make informed decisions on the matters to be discussed. This means that when the following matters, which shall include, but shall not be limited to: any merger, share repurchase, share capital reorganization or any proposals relating to change in the structure of the Bank are involved, the detailed terms of the proposed transaction, copies of the proposed agreement (if any) and detailed explanation as to the cause and effect of such a proposal transaction shall be provided;

(e) if any of the Directors, Supervisors, President or other 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 a Director, Supervisor, President or other senior management personnel as Shareholders compared to other Shareholders of that same class, they shall explain this difference;

(f) the full text of any proposed special resolution to be voted on at the meeting;

(g) a prominent statement stating that a Shareholder entitled to attend and vote at the meeting, is entitled to appoint above one proxy to attend and vote on his/her behalf, and such proxy need not be a Shareholder;

(h) the shareholding registration date of the Shareholders who are entitled to attend the meeting;

(i) the time and address for lodging the proxy forms of the relevant meeting;

(j) the name and phone number of the contact person of the meeting;

(k) other requirements stipulated by relevant laws, administrative regulations, departmental rules, rules governing securities of the place where shares of our Bank are listed, and our Articles.

The notice of a Shareholders' general meeting shall be delivered by hand or prepaid mail to all Shareholders (regardless of whether they have voting rights at the Shareholders' general meeting). The address of the recipients shall be the address registered in the register of Shareholders. For holders of domestic shares, the notice of a Shareholders' general meeting may be in the form of an announcement.

The aforesaid announcement shall be published in one or more newspapers specified by the securities regulatory and administrative authorities under the State Council between the forty-five (45) to fifty (50) day interval prior to the date the meeting is convened. 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, administrative regulations, departmental rules, regulatory documents, rules governing securities of the place where shares of our Bank are listed, and our Articles, the Bank may also send or dispatch the aforesaid notices of general meeting to the holders of H shares through the websites of the Bank and the Hong Kong Stock Exchange, instead of sending or dispatching the same by personal delivery or prepaid mail.

The Shareholders' general meeting shall be an organ of power of the Bank. It shall exercise the following powers in accordance with the law:

(a) to decide on the business policies and extremely important investment plans of the Bank;

(b) to elect and replace Directors and to decide on the remuneration of the relevant Directors;

(c) to elect and replace Supervisors which are not appointed as representatives of the employees and to decide on the remuneration of the relevant Supervisors;

(d) to examine and approve reports made by the Board;

(e) to examine and approve reports made by the Board of Supervisors;

(f) to debrief the report of evaluation by the Board of Directors on the Directors and by the independent Directors on each other;

(g) to debrief the report of evaluation by the Board of Supervisors on the Supervisors and by the external Supervisors on each other;

(h) to examine and approve the Bank's proposed annual financial budget and final accounts;

(i) to examine and approve the Bank's plans for profit distribution and tax loss carry forward;

(j) to examine and approve the Bank's extremely important investment, extremely important asset acquisition and disposals, extremely important external guarantee, extremely important related transactions;

(k) to adopt resolutions concerning the increase or reduction in the Bank's registered capital;

(l) to adopt resolutions concerning the issuance of bonds or other securities and the listing;

(m) to adopt resolutions concerning the combination, division, dissolution, liquidation, or change of the form of organization of the Bank;

(n) to amend our Articles;

(o) to decide on the engagement, dismissal or discontinuation of the appointment of the accounting firm;

(p) to examine matters concerning purchases or sales of major assets in a year that exceed 30% of the Bank's audited total assets of the last period;

(q) to examine matters concerning the changes of uses of the funds raised;

(r) to examine equity incentive plans;

(s) 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;

(t) to examine and approve other issues which should be decided by the Shareholders' general meeting as stipulated by the laws, administrative regulations, departmental rules, rules governing securities of the place where shares of our Bank are listed as well as our Articles.

The following matters shall be approved by special resolutions at a Shareholders' general meeting:

(a) an increase or reduction in the registered capital and the issuance of any class of shares, warrants and other similar securities of the Bank;

(b) the issuance of bonds or listing of the Bank;

(c) the division, combination, dissolution, liquidation, or change of the form of organization of the Bank;

(d) amendments to our Articles;

(e) matters concerning purchases or sales of major assets in a year that exceed 30% of the Bank's audited total assets of the last period;

(f) equity incentive plans;

(g) other matters that, resolved by the Shareholders' general meeting by an ordinary resolution, may have a material effect on the Bank and should therefore be adopted by a special resolution.

The following matters shall be approved by ordinary resolutions at a Shareholders' general meeting:

(a) work reports of the Board of Directors and the Board of Supervisors;

(b) profit distribution plans and loss recovery plans proposed by the Board of Directors;

(c) appointment, dismissal, remuneration and payment procedure of the members of the Board of Directors and members of the Board of Supervisors;

(d) the annual budget and final accounts, the balance sheet, statements of profits and other financial statements of the Bank;

(e) engagement, dismissal or discontinuation of the appointment of the accounting firm;

(f) matters other than those required by the laws, administrative regulations, rules governing securities of the place where shares of our Bank are listed or our Articles to be approved by special resolutions.

TRANSFER OF SHARES

Unless otherwise specified by the relevant laws, administrative regulations and the regulations of the securities regulatory authorities in the locality in which the shares of the Bank are listed, the fully paid shares of the Bank may be transferred legally and freely without any lien attached. Transferee shall meet qualifications to invest banks stipulated by relevant PRC authorities. Registration shall be made in the share registrar authorized by the Bank for the transfer of the shares of the Bank.

All fully paid H shares may be freely transferred in accordance with our Articles without any limitation on transfer right (except for the circumstance permitted by the Hong Kong Stock Exchange) and without any lien attached. However, the Board may refuse to recognize the documents for transfer without stating any reason if the conditions stipulated by our Articles are not met.

The Bank shall comply with the relevant regulations of the banking regulatory and administrative authorities under the State Council or other relevant administrative authorities in transferring its shares.

Pledge of Shares

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 are entitled to nominate candidates of the Directors and Supervisors of the Bank or Shareholder who can 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 for filing in advance to state basic information such as reason for pledge, number of shares, 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, risk and control on related (connected) transactions. The Director(s) nominated by a Shareholder proposing to pledge his 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.

Shareholders shall not pledge the Bank's shares if the outstanding balance of the loans they have borrowed from the Bank exceeds the audited net book value of the Bank's shares held by them in the previous year.

When the shares pledged by a Shareholder reaches or exceeds 50% of its holding of shares in the Bank, the voting rights of such Shareholder at general meetings and the voting rights of Directors appointed by such Shareholder at meetings of the Board shall be restricted.

POWER OF OUR BANK TO REPURCHASE OUR OWN SHARES

The Bank may, in accordance with the provisions under our Articles and with the approval by the banking regulatory authorities under the State Council, repurchase its issued shares in the following circumstances:

(a) to reduce the registered capital of the Bank;

(b) to merge with another company that holds its shares;

(c) to use shares for employee stock ownership plan or equity incentives;

(d) a shareholder requests the Bank to purchase the shares held by him since he objects to a resolution of the shareholders' meeting on the combination or division of the Bank;

(e) to use shares for converting convertible corporate bonds issued by the Bank;

(f) it is necessary for the Bank to protect the corporate value and the rights and interests of shareholders;

(g) any other circumstances as stipulated by the laws, administrative regulations, departmental rule and our Articles.

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) of the preceding paragraph shall be subject to a resolution of the shareholders' meeting; and a company purchasing its own shares under any of the circumstances set forth in items (c), (e) and (f) of the preceding paragraph may, pursuant to the bylaws or the authorization of the shareholders' meeting, be subject to a resolution of a meeting of the board of Directors at which more than two-thirds of Directors are present.

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.

With the approval of competent state authorities for repurchasing its Shares, the Bank may conduct the repurchase in one of the following manners:

(a) to make an offer of repurchase to all of its Shareholders in the same proportion;

(b) to repurchase Shares through public trading on a stock exchange;

(c) to repurchase through an off-market agreement;

(d) by other means as permitted by the laws, administrative regulations and the relevant competent authorities.

A prior approval shall be obtained from a general meeting in respect of any share repurchase by the Bank through an off-market agreement instead of on a securities exchange in accordance with the provisions of our Articles. After the general meeting has given its 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 in the paragraph 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.

Unless the Bank is undergoing liquidation, it shall comply with the following requirements with respect to a repurchase of its issued 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 the aggregate amount of the premium received by the Bank from the issuance of the shares so repurchased, nor shall it exceed the amount in the Bank's premium account or capital reserve fund account (including premium on the 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 any 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 premium account or its capital reserve fund account.

If there are applicable provision(s) to the contrary regarding the financial treatment of the aforementioned share repurchases in the laws, administrative regulations, departmental rules, and rules governing securities of the place where shares of our Bank are listed, such provision(s) shall prevail.

RIGHT OF OUR SUBSIDIARIES TO OWN SHARES IN OUR BANK

There are no provisions in our Articles 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 where the Bank's shares are listed. 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 at a Shareholders' general meeting:

(a) the same right of speech as the Shareholder at the 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 shall be placed at the Bank's domicile or at any other place designated in the notice of Shareholders' general meeting, and at least twenty-four (24) hours prior to either the convening of the relevant meeting in which the resolutions are to be voted on or the designated voting time. If the power of attorney is signed by a person authorized by the appointing Shareholder instead of the appointing Shareholder himself/herself, the power of attorney or other authorization documents shall be notarized. The notarized power of attorney or other authorization documents shall, together with the proxy form authorizing the proxy to vote, be placed at the Bank's domicile or any other place designated in the notice of Shareholders' general 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 general meeting of the Bank. The legal representative of a corporate shareholder may appoint a proxy to attend the meeting.

If the appointing Shareholder has passed away, lost his/her ability to act, withdrawn the authorization or has transferred all of his/her 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

Our Bank shall have the right to cease delivering dividend notice to the Shareholders of overseas listed 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.

Our Bank shall have the right to sell the shares of the Shareholders of overseas listed 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 (3) times in a period of twelve (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 of listing, stating its intention to sell such shares and notifies the stock exchange of the locality in which the Bank's shares are listed.

RIGHTS OF SHAREHOLDERS (INCLUDING INSPECTION OF REGISTER OF SHAREHOLDERS)

The Shareholders of ordinary Shares of our 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) attend or appoint a proxy to general meetings, and to exercise corresponding voting rights based on the number of the Shares held by him;

(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 the laws, administrative regulations, and rules governing securities of the place where shares of our Bank are listed, and our Articles;

(e) to obtain relevant information in accordance with the laws, administrative regulations, departmental rules, rules governing securities of the place where shares of our Bank are listed and our Articles, including:

   (i) to obtain a copy of our Articles after paying the costs and expenses incurred; and

   (ii) have the right to inspect, free of charge, and to photocopy, after paying a reasonable fee, the following documents:

      (i) all parts of whole copies of the register of Shareholders;

      (ii) the personal information of the Directors, Supervisors, president and other senior management personnel of our Bank, including current and former names and aliases, primary address (domicile), nationality, full-time and all other part-time occupations and positions, identification documents and their numbers;

      (iii) report of share capital issued by the Bank;

      (iv) 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 (by domestic shares and H Shares);

      (v) minutes of the Shareholders' general meetings;

(vi) the special resolutions of our Bank;

(vii) the latest audited financial statements, Directors' reports, auditors' report and report of the Bank's Board of Supervisors;

(viii) a copy of the latest annual report and annual return already submitted to the State Administration for Industry and Commerce of PRC or other competent bodies.

Except the documents set out in (ii) above, the Bank shall keep the above documents at the Hong Kong address of the Bank for the free inspection by the public and holders of H Shares. Documents set out in (v) are for inspection by Shareholders only.

(f) 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;

(g) to demand the Bank to acquire their shares (for Shareholders who disagree with the resolutions adopted at a Shareholders' general meeting in relation to the merger or division of the Bank); and

(h) to have other rights conferred in accordance with the laws, administrative regulations, departmental rules, rules governing securities of the place where shares of our Bank are listed, and our Articles.

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.

QUORUM FOR MEETINGS AND SEPARATE CLASS MEETINGS

When the Bank is to convene a general meeting, the conveners shall issue a written notice, forty-five (45) days prior to the date of the meeting, to all Shareholders whose names appear on the register of Shareholders, stating the matters to be considered at the meeting and the date and venue of the meeting. Shareholders who wish to attend the Shareholders' general meeting shall provide a written reply of attendance to the Bank twenty (20) days before the general meeting is convened. The Bank shall calculate the proportion of voting shares held by Shareholders who wish to attend the meeting based on the written replies received twenty (20) days before the shareholders' general meeting that is convened by the Bank. Where the proportion of voting shares held by Shareholders who wish to attend the meeting reaches above half of the total voting shares of the Bank, the Bank will convene the Shareholders' general meeting. If this threshold is not met, the Bank shall inform the Shareholders within five (5) days via an announcement stipulating the matters to be considered and the venue, date and time of the meeting. Once this announcement is made, the Bank may then proceed to convene the Shareholders' general meeting.

When convening a meeting for a certain class of Shareholders, the Bank shall issue a written notice, forty-five (45) days prior to the date of the meeting, to all Shareholders in the relevant class whose names appear on the register of Shareholders, stating the matters to be considered at the meeting and the date and venue of the meeting. Shareholders who intend to attend the meeting shall deliver a written response to the Bank twenty (20) days before the meeting is convened. The Bank may convene a meeting for a certain class of Shareholders if the number of Shareholders intending to attend the meeting represent above half of the total number of shares with voting rights in that class. If this requirement is not met, the Bank shall, within five (5) days, issue another announcement informing the Shareholders of the matters to be considered at the meeting and the date and venue of the meeting. Once this announcement is made, the Bank may convene the meeting for that class of Shareholders.

RIGHTS OF MINORITY SHAREHOLDERS

In addition to the obligations required under the laws, administrative regulations or the listing rules of a stock exchange located in the locality in which the shares of the Bank are listed, 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 a Supervisor in depriving the Bank of its assets in any form, including but not limited to any business opportunities that are advantageous to the Bank, regardless of whether the deprivation is made for the Director, or Supervisor's benefit or for the benefit of others; or

(c) approving a Director or a Supervisor (for his/her own or for the benefit of 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 a Bank restructuring submitted to and adopted at the Shareholders' general meeting in accordance with our Articles.

The "controlling shareholder(s)" shall refer to the shareholder(s) 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 above 30% of the total voting shares of the Bank when acting alone or in concert with others;

(c) the shareholder holds above 30% of issued and outstanding shares of the Bank when acting alone or in concert with others; or

(d) the shareholder may de facto control the Bank in any other manner when acting alone or in concert with others.

PROCEDURES ON LIQUIDATION

The Bank shall be dissolved and liquidated according to laws in any of the following circumstances:

(a) business term specified by our Articles expires or other dissolve matters stipulated by our Articles emerges;

(b) if the Shareholders' general meeting resolves to do so;

(c) if a dissolution is necessary as a result of a merger or division of the Bank;

(d) the Bank is declared bankrupt due to its failure to repay debts due;

(e) if the business license of the Bank is revoked or if it is ordered to close down its business or if its business license is canceled in accordance with the laws;

(f) where the operation and management of the Bank falls into serious difficulties and its continued existence would cause material losses to Shareholders, the Shareholders holding above 10% of the total voting rights of the Bank may apply to the people's court to dissolve the Bank if there are no other solutions.

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 have conducted a comprehensive investigation into the situation of the Bank and believes that the Bank is able to pay off all its debts within twelve months following the commencement of the liquidation.

After the Shareholders' general meeting adopts a resolution in favor of the liquidation, the functions and powers of the Board of the Bank shall be terminated immediately.

The liquidation committee shall follow the instructions of the shareholders' general meetings and shall report to the Shareholders' general meeting at least once a year on the income and expenditure of the liquidation committee, the business of the Bank and the progress of the liquidation, and shall make a final report to the Shareholders' general meeting at the end of the liquidation.

OTHER PROVISIONS MATERIAL TO OUR BANK AND OUR SHAREHOLDERS

General Provisions

After consideration and approval by the Shareholders' general meeting and approval by the banking regulatory and administrative authorities under the State Council, our Articles shall become effective from the date of public offering of the H Shares of the Bank on the Hong Kong Stock Exchange. From the date on which it becomes effective, our Articles shall become a legally binding document that regulates the organization and acts of the Bank, as well as the rights and obligations between the Bank and its Shareholders, and amongst the Shareholders themselves.

The Bank may increase its capital as follows in the light of its business and development needs, in accordance with the relevant laws, administrative regulations, and rules governing securities of the place where shares of our Bank are listed, resolutions made at the Shareholders' general meeting and upon approval by relevant competent authorities of the State:

(a) public offering of shares;

(b) non-public offering of shares;

(c) placing new shares to existing Shareholders;

(d) distributing new shares to existing Shareholders;

(e) transferring reserve funds to increase share capital;

(f) other methods stipulated by laws, administrative regulations and permitted 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 relevant laws, administrative regulations, rules governing securities of the place where shares of our Bank are listed, after being approved according to our Articles.

Shareholder of ordinary Shares of our Bank shall have the following obligations:

(a) to abide by the laws, administrative regulations, regulatory provisions, and our Articles;

(b) to contribute to the share capital as determined by the number of shares subscribed by them and the prescribed method of capital contribution;

(c) not to withdraw their contributed share capital except in circumstances allowed by the laws and administrative regulations;

(d) shareholders shall fulfill their fiduciary duties to the Bank to ensure that the shareholder qualification information provided is true, complete and valid. Substantial shareholders shall disclose information of their related party, the related-party relationship with other shareholders and their shareholdings in other commercial banks completely, promptly and accurately to the Board of Directors and undertake to report promptly any changes thereof to the Board of Directors;

(e) shareholders, especially substantial shareholders, shall exercise rights and perform duties of investor and in strict accordance with the laws, administrative regulations, departmental rules and our Articles, and shall not abuse shareholders' rights or exert influence to intervene with the decision-making and management rights of the Board of Directors and senior management; nor shall they intervene with the operation and management of the Bank by directly going over the Board of Directors and senior management or by exerting influence, transfer benefit, or damage the interests of depositors, the Bank and other shareholders' legal interests by any other means;

(f) shareholders, especially substantial shareholders, shall support the Board of Directors to formulate reasonable capital planning to meet the regulatory requirement. When our capital adequacy ratio fails to satisfy the regulatory requirement, we shall formulate capital replenishment plan to meet the regulatory requirement on capital adequacy ratio within time limit and replenish capital by increasing core capital or other means. Substantial shareholders shall not hinder other shareholders to replenish capital to the Bank or the admission of qualified new shareholders;

(g) substantial shareholders shall make long-term commitments on contribution of additional capital in written form as part of the capital plan of the Bank, promising that they will perform continuous capital injection duty after approval according to relevant regulations and procedures when market environment confronts unfavorable change, the Bank faces hard operation, and cannot meet regulatory requirement of capital adequacy ratio by market financing;

(h) 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, right of making motions and right of disposition;

(i) for any shareholder who has made any false statement, abuses shareholder's rights or has other acts that harm the interests of the Bank, the banking regulatory authorities under the State Council or its local offices may restrict or prohibit any connected transactions between the Bank and him/her and restrict the quota of the

Bank's equity held by him/her and equity pledge ratio as well as his/her rights including the right to request convening the Shareholders' general meeting, voting right, right of nomination, right of making motions and right of disposition;

(j) the Bank shall not extend the same class of credit to its shareholders under more favorable terms and conditions than those for other customers;

(k) when the credit extended by the Bank to shareholders (in particular, substantial shareholders) is overdue, the voting rights of such shareholders at the Shareholders' general meeting and of director(s) nominated by such shareholders at the Board meetings shall be suspended. The Bank has the right to preferentially use their due dividend for repaying their debts in the Bank. When the Bank is liquidated, property allocated to them shall be preferentially used for repaying their debts in the Bank;

(l) to assume other obligations required by the laws, administrative regulations and our Articles.

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 of the Bank shall be a natural person and is not required to hold any shares of the Bank.

BOARD OF DIRECTORS

The Board of Directors shall be accountable to the shareholders' general meeting, undertake final responsibility of operation and management of the Bank, and exercise the following functions and powers in accordance with law:

(1) to convene shareholders' general meetings, reporting its performance at the general meetings, and implementing resolutions of the shareholders' general meetings;

(2) to decide on development strategies, operational plans and investment programs of the Bank;

(3) to formulate annual financial budget plans, final account plans, and risk capital allocation plan of the Bank;

(4) to formulate profit distribution plan and loss recovery plan;

(5) to formulate proposals for increases in or reductions of registered capital, issuance of bonds or other securities and listing plans of the Bank;

(6) to formulate proposals for repurchase of the Bank's shares;

(7) to formulate plans for merger, separation, dissolution, or change in corporate structure;

(8) to formulate proposals for any amendment to our Articles;

(9) to formulate the basic management system of the Bank;

(10) to formulate and execute clear responsibility system and accountability system, and to assess and complete corporate governance of the Bank regularly;

(11) to decide asset and liability management (including but not limited to capital requirement), risk tolerability, risk management, and internal control policy of the Bank;

(12) to formulate capital planning, and undertake final responsibility of capital management;

(13) to formulate related transaction management system, to examine and approve or accredit Related Transaction Control Commission to approve related transactions;

(14) to examine and approve annual work report of the Bank;

(15) to decide long-term award plan, remuneration plan and salary plan of the Bank;

(16) to approve internal audit plan, annual work plan and audit budget of the Bank;

(17) to examine and approve proposals raised by each professional commission of the Board of Directors;

(18) to decide the Bank's important investment, important asset acquisition and disposals, important external guarantee, important trust management, important related transactions, large loans; to initially examine the Bank's extremely important investment, extremely important asset acquisition and disposals, extremely important external guarantee, extremely important trust management, extremely important related transactions, and submit them to the Shareholders' general meeting for approval;

(19) to appoint or dismiss the President, the Secretary of the Board of Directors, Chief Audit (Compliance) Officer and the person in charge of the internal audit department as nominated by the Chairman; to appoint or dismiss the Vice President, Assistant to the President, Chief Finance Officer, Chief Risk Officer, Chief Operation Officer,

Chief Technology and Information Officer, Chief Human Resource Officer, Chief Data Officer, and Marketing Director, etc. as nominated by the President; and to decide remunerations, awards and punishments of the aforesaid persons;

(20) to authorize certain operation and management power to the President annually, and to review working reports of the President and to examine the performance of the President;

(21) to decide chairman and members of each professional commission of the Board as nominated by the Nomination, Remuneration and Human Resource Commission;

(22) to decide on the plans for establishment of internal management structure of the Bank and establishment of branches of the Bank;

(23) to propose to the Shareholders' general meeting the engagement, dismissal or discontinuation of the appointment of the accounting firm auditing the Bank, and to give explanation to the Shareholders' general meeting on the non-standard audit opinions of certified public accountant on our financial report;

(24) to disclose information of the Bank and take ultimate responsibility for the authenticity, completeness, accuracy, and timeliness of our systems of accounting and financial reporting;

(25) to regularly debrief the internal audit department and compliance department's report on internal audit and examination result, and regulatory opinions of relevant regulatory authorities on the Bank, and to examine the Bank's rectification report on executing regulatory opinions; to regularly assess operation status of the Bank, comprehensively evaluate perform of senior management personnel according to assessment result, and to supervise and ensure effective management performance of senior management;

(26) to safeguard legal interests of depositors and other stakeholders;

(27) to establish an identification, investigation and management mechanism for the conflict of interest between the Bank and shareholders, especially substantial shareholders;

(28) to exercise any other functions and powers prescribed by the laws, administrative regulations, and our Articles and authorized by the Shareholders' general meetings.

Regular meetings of the Board of Directors shall be held at least once every quarter, and at least four times every year. The regular meeting shall be convened by the chairman of the Board of Directors, and written notice of the meeting shall be made to all the Directors and Supervisors 14 days before the date of the meeting.

BOARD OF SUPERVISORS

The Bank shall have a Board of Supervisors which shall be composed of seven (7) to nine (9) Supervisors. The Board of Supervisors shall have one (1) chairman, the appointment and removal of whom shall be made with a resolution passed by above two-thirds of the all members of the Board of Supervisors. External Supervisors and employee representative Supervisors shall not be less than one-third of the total number of members of the Board of Supervisors. A resolution of the Board of Supervisors shall be passed by no less than two-thirds of all members of the Board of Supervisors, except otherwise stipulated by laws, administrative regulations, departmental rules or relevant regulatory authorities.

Shareholder representatives acting as supervisors and external supervisors shall be elected, removed or replaced by Shareholders' general meeting. Employee representatives acting as supervisors shall be elected, removed or replaced by employee representative meeting of the Bank.

The Board of Supervisors, as the internal supervising institution of the Bank, shall be accountable to the general meeting and exercise the following powers:

(a) to carry out review and give written review opinions on the regular reports on the Bank prepared by the Board of Directors;

(b) to examine our financial activities;

(c) to supervise the Board of Directors and senior management to complete internal control system;

(d) to supervise performance of the Board of Directors, Directors, senior management and its personnel under relevant laws and regulations and our Articles;

(e) to supervise the behaviors of the Directors, President and senior management personnel in their performance of their duties in our Bank and to propose the removal of directors and senior management personnel who have violated laws, administrative regulations, our Articles or resolutions of the Shareholders' general meetings;

(f) when the acts of a Director, president or senior management personnel of the Bank are detrimental to its interests, to require the aforementioned persons to correct these acts;

(g) to regularly assess performance of Directors and senior management personnel on the basis of the Board of Directors' evaluation on Directors, and report to the Shareholders' general meeting;

(h) to propose the convening of extraordinary Shareholders' general meeting and to convene and preside over Shareholders' general meeting when the Board fails to perform the duty of convening and presiding over shareholders' general meetings under our Articles;

(i) to submit proposals to the Shareholders' general meetings;

(j) to attend meetings of the Board of Directors and senior management, and obtain meeting materials;

(k) to formulate a standard scheme for the remuneration of the members of the Board of Supervisors of the Bank for review and determination at the Shareholders' general meeting;

(l) to formulate assessment method for Supervisors, examine and assess Supervisors, and report to the Shareholders' general meeting for determination;

(m) to verify financial information including financial reports, operation reports and profit distribution plans to be proposed by the Board of Directors to the Shareholders' general meeting, and engage certified accountants or practicing auditors to assist in the re-examination in the name of the Bank if problems are identified;

(n) to conduct investigation or special examination activity when noticed unusual operation condition, and require senior management to propose and execute rectification opinions as to noticed problems. If necessary, to engage intermediary organs such as accounting firm for assistance, fee of which shall be undertaken by the Bank;

(o) to negotiate with a Director or bring actions against a Director or senior management personnel on behalf of the Bank according to PRC Company Law;

(p) to supervise the Board of Directors to determine stable operational principle, value criterion, and to formulate feasible development strategy for the Bank;

(q) to assess regularly scientificity, reasonability, and effectiveness of development strategy formulated by the Board of Directors, which shall be made to an assessment report;

(r) to supervise and examine operation decision, risk management, and internal control of the Bank, and supervise the rectification;

(s) to supervise engagement procedure of Directors;

(t) to supervise scientificity and reasonability of remuneration management system and policy of the Bank and remuneration plan of senior management personnel;

(u) to regularly communicate with the banking regulatory authority about the Bank's condition;

(v) to suggest, remind, talk and inquire, if necessary, the Board of Directors and senior management personnel or other personnel, in writing or by parole, and ask for reply;

(w) to exercise any other functions and powers prescribed by the laws, administrative regulations, and our Articles and authorized by the Shareholders' general meetings.

PRESIDENT

The Bank shall have one president who shall be accountable to the Board and shall perform the following duties and powers:

(a) to be in charge of the operation and management of the Bank, and report work to the Board of Directors or the Chairman when the Board of Directors is not in session;

(b) to carry out strategic decision of the Board of Directors, achieve operational goal made by the Board of Directors, and to organize the implementation of the resolutions of the Board of Directors;

(c) to submit medium and long term development plan, annual operational plan and investment scheme to the Board of Directors by representing senior management, and to organize the implementation when approved by the Board of Directors;

(d) to propose to appoint or dismiss Vice President, Assistant to the President, Chief Finance Officer, Chief Risk Officer, Chief Operation Officer, Chief Technology and Information Officer, Chief Data Officer, Chief Human Resources Officer and Marketing Director, etc.;

(e) to appoint or dismiss persons in charge of the internal departments and branches of the Bank other than those to be engaged or dismissed by the Board of Directors and ordinary staff of the Bank;

(f) to adopt emergency measures when any material emergency (such as a run on the Bank) arises and promptly report them to the regulatory authorities, the Board of Directors and the Board of Supervisors;

(g) to formulate the Bank's specific regulations;

(h) to draft the Bank's basic management system;

(i) to draft internal management institution setting plan of the Bank;

(j) to draft stock incentive plan, long term award plan, remuneration scheme and salary plan for the Bank's staff, submit them to the Board of Directors or the Shareholders' general meeting, and organize the implementation after approval;

(k) to formulate rules of procedure of senior management, submit them to the Board of Directors, and implement them after approval;

(l) to undertake or authorize other senior management personnel, internal functional department and persons in charge of branches to undertake, under authorization of the Board of Directors, operational activities;

(m) to sign contracts under authorization of the Board of Directors;

(n) to propose to convene a provisional board meeting;

(o) other powers and rights conferred by laws, administrative regulations, departmental rules and our Articles.

Non-Director President and Vice President may observe the meetings of the Board, but shall have no voting rights thereat.

RESOLUTION OF DISPUTES

The Bank shall abide by the following rules for dispute resolution:

(a) If any disputes or claims in relation to the Bank's business, with respect to any rights or obligations under our Articles, the PRC Company Law or any other relevant laws and administrative regulations, arise between Shareholders of overseas listed shares and the Bank, between Shareholders of overseas listed shares and the Bank's Directors, Supervisors, President, or other senior management personnel of the Bank, or between Shareholders of overseas listed shares and other Shareholders, the parties concerned shall submit such disputes or claims to arbitration.

When the aforementioned disputes or claims are submitted to arbitration, such disputes or claims shall be submitted in their entirety, and all persons (being the Bank, the Bank's Shareholders, Directors, Supervisors, President, or other senior management personnel of the Bank) that have a cause of action based on the same grounds or the persons whose participation is necessary for the resolution of such disputes or claims, shall comply with the arbitration.

Disputes with respect to the definition of Shareholders and disputes concerning the register of Shareholders need not be resolved by arbitration.

(b) An applicant may choose for the arbitration 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 a claimant submits a dispute or claim to arbitration, the other party must carry out the arbitration at the arbitration institution selected by the claimant.

If an applicant 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.

(c) Unless otherwise provided by the laws, administrative regulations, departmental rules or regulatory documents, the laws of the PRC shall apply to the settlement of any disputes or claims that are resolved by arbitration described in item (a) above.

(d) The award of the arbitration institution shall be final and binding on all parties.

1. TAXATION OF SECURITY HOLDERS

The taxation of income and capital gains of holders of H Shares is subject to the laws and practices of the PRC and of jurisdictions in which holders of H Shares are resident or otherwise subject to tax. The following summary of certain relevant taxation provisions is based on current laws and practices, is subject to change and does not constitute legal or tax advice. The discussion does not deal with all possible tax consequences relating to an investment in the H Shares, nor does it take into account the specific circumstances of any particular investor, some of which may be subject to special regulation. Accordingly, you should consult your own tax advisor regarding the tax consequences of an investment in the H Shares. The discussion is based upon laws and relevant interpretations in effect as of the 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.

A. 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 a PRC withholding tax levied at a flat rate of 20%. For a foreign individual who is not a resident of the PRC, the receipt of dividends from an enterprise in the PRC is normally subject to a withholding tax of 20% unless specifically exempted by the tax authority of the State Council or reduced by an applicable tax treaty.

Pursuant to the Notice of the State Administration of Taxation on Issues Concerning Taxation and Administration of Individual Income Tax After the Repeal of the Document Guo Shui Fa 1993 No. 45 (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》) issued by the SAT on June 28, 2011, domestic non-foreign-invested enterprises issuing shares in Hong Kong may, when distributing dividends, withhold individual income tax at the rate of 10%. For the individual holders of H Shares receiving dividends who are citizens 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 Corporate Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the "**CIT Law**"), which was last amended and came into effect as of December 29, 2018, and the Implementation provisions for the Corporate Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) which was promulgated on December 6, 2007 and came into effect as of January 1, 2008, a non-resident enterprise is generally subject to a 10% corporate 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 withholding 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 on Issues Relating to the Withholding of Corporate Income Tax by PRC Resident Enterprises on Dividends Paid to Overseas Non-PRC Resident Enterprise Shareholders of H Shares (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) (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 corporate 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 Corporate 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 corporate 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 Fourth 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 State Administration of Taxation (《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>第四議定書》) effective on December 29, 2015 states that such provisions shall not apply to arrangement made for the primary purpose of gaining 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 State Administration of Taxation 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 or residing in Hong Kong or Macau are entitled to a reduction of the withholding taxes imposed on the dividends received from PRC companies. The PRC currently has 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 income tax at a rate of 20%.

Pursuant to the Circular of the MOF and the State Administration of Taxation Declaring that Individual Income Tax Continues to be Exempted over Income of Individuals 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 State Administration of Taxation on March 30, 1998, from January 1, 1997, income of individuals from transfer of shares in listed enterprises continues to be exempted from individual income tax. The State Administration of Taxation has not stated whether it will continue to exempt individual income tax on income of individuals from transfer of listed shares in the latest amended Individual Income Tax Law and the Implementation Rules of IIT Law.

However, on December 31, 2009, the MOF, the State Administration of Taxation and CSRC jointly issued the Circular on Related Issues on 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 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 Supplementary Notice on Issues Concerning the Levy of Individual Income Tax on Individuals' Income from the Transfer of Restricted Stocks of Listed Companies (《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, no aforesaid provisions have expressly provided that whether individual income tax shall be collected from non-Chinese resident individuals on the transfer of shares in PRC resident enterprises listed on overseas stock exchanges, and to the best of our knowledge, in practice such tax has not been collected by the PRC tax authorities.

Enterprise Investors

In accordance with the CIT Law and its implementation provisions, a non-resident enterprise is generally subject to a 10% corporate 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實施細則》) 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.

B. 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.

2. PRINCIPAL TAXATION OF OUR BANK BY THE PRC

Corporate Income Tax

Pursuant to the CIT Law, enterprises and other organizations which generate income within the PRC are corporate income tax payers and shall pay corporate income tax at a tax rate of 25%.

Business Tax/Appreciation Tax

Pursuant to the Provisional Regulations of the PRC on Business Tax (《中華人民共和國營業稅暫行條例》), which became effective on January 1, 1994, subsequently amended on November 5, 2008 and implemented on January 1, 2009, the Bank is engaged in banking activities within the PRC and is therefore subject to a 5% business 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 and effective from May 1, 2016, from May 1, 2016 onwards, the pilot reform for the transition from business tax to VAT ("**Business Tax to VAT**") is implemented nationwide, 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.

3. TAXATION OF OUR BANK IN HONG KONG

Our Directors do not consider that any of our Bank's income is derived from or arises in Hong Kong for the purpose of Hong Kong taxation. Our Bank will therefore not be subject to Hong Kong taxation.

4. FOREIGN EXCHANGE

The lawful currency of the PRC is the Renminbi, which is currently subject to foreign exchange control and is not freely convertible into foreign exchange. The SAFE, under the 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 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 still are. The Foreign Exchange Control Regulations were subsequently amended on January 14, 1997 and August 1, 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 Provisional Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理暫行規定》) (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 Issues regarding 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 solely 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, 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, PBOC introduced the market-maker rule to provide liquidity to the foreign exchange market. On July 1, 2014, PBOC further improved the formation mechanism of the RMB exchange rate by authorizing the China Foreign Exchange Trade Center 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, 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 Center 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 Regulations for Foreign Exchange Control, 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 investment 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 investment 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 State Administration of Foreign Exchange on Issues Concerning the Foreign Exchange Administration of Overseas Listing (《國家外匯管理局關於境外上市外匯管理有關問題的通知》), pursuant to 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 establishment; the proceeds from an overseas listing may be remitted to the domestic account or deposited in an overseas account, but the use of the proceeds shall be consistent with the content of the prospectus and other disclosure documents.

On February 13, 2015, the SAFE issued the Notice of the State Administration of Foreign Exchange 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). The notice 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 branch offices shall indirectly regulate the foreign exchange registration of direct investment through banks.

According to the Notice of the State Administration of Foreign Exchange 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

As approved by PBoC, our Bank was established as a joint stock commercial bank on October 16, 1998 under the name of "Taiyuan City Commercial Bank Co., Ltd. (太原市商業銀行股份有限公司)", which was established and promoted jointly by Taiyuan Municipal Finance Bureau, and the original shareholders of 47 urban credit cooperatives in Taiyuan and Taiyuan Urban Credit Cooperative Union (太原市城市信用合作社聯合社).

On December 30, 2008, the CBRC approved the change of the name of our Bank from "Taiyuan City Commercial Bank Co., Ltd. (太原市商業銀行股份有限公司)" to "Jinshang Bank Co., Ltd. (晉商銀行股份有限公司)".

The registered address of our Bank is No. 59 Changfeng Road, Xiaodian District, Taiyuan, Shanxi Province, the PRC. Our Bank has established a principal place of business in Hong Kong at 40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong, and our Bank was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on March 8, 2019. Ms. YEUNG Ching Man 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 in Hong Kong is the same as the address of our principal place of business in Hong Kong.

We conduct our banking business in the PRC under the supervision and regulation of the CBIRC and the PBoC. We are not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), and are not subject to the supervision of the HKMA, nor authorized to carry on banking and/or deposit-taking business 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 certain relevant provisions of our Articles of Association is set out in Appendix V.

B. Changes in Registered Capital of our Bank

At the time of our establishment, the registered capital of our Bank was RMB194,265,557, divided into 194,265,557 Domestic Shares with a nominal value of RMB1.00 each. Since the establishment of our Bank, there have been several increases of the registered capital of our Bank.

On December 31, 2006, the registered capital of our Bank was increased from RMB194,265,557 to RMB594,265,557 by issuing and allotting 400,000,000 new Domestic Shares with a nominal value of RMB1.00 each to Taiyuan Municipal Finance Bureau.

On May 7, 2008, the registered capital of our Bank was increased from RMB594,265,557 to RMB605,011,894 by conversion of undistributed profits into share capital of a total amount of 10,746,337 Domestic Shares.

On December 25, 2009, the registered capital of our Bank was increased from RMB605,011,894 to RMB2,391,938,808 by issuing and allotting 1,786,926,914 new Domestic Shares with a nominal value of RMB1.00 each to nine new investors.

On May 28, 2010, the registered capital of our Bank was increased from RMB2,391,938,808 to RMB2,468,000,000 by issuing and allotting 76,061,192 new Domestic Shares with a nominal value of RMB1.00 each to four new investors.

On December 15, 2011, the registered capital of our Bank was increased from RMB2,468,000,000 to RMB3,268,000,000 by issuing and allotting 800,000,000 new Domestic Shares with a nominal value of RMB1.00 each to 15 investors.

On February 28, 2018, the registered capital of our Bank was increased from RMB3,268,000,000 to RMB4,868,000,000 by issuing and allotting 1,600,000,000 new Domestic Shares with a nominal value of RMB1.00 each to 11 investors.

Immediately following the Global Offering (assuming the Over-allotment Option is not exercised), our total issued share capital will be RMB5,728,000,000, consisting of 4,868,000,000 Domestic Shares and 860,000,000 H Shares, which represent approximately 84.99% and 15.01% of our total issued share capital, respectively.

Immediately following the Global Offering (assuming the Over-allotment Option is exercised in full), our total issued share capital will be RMB5,857,000,000, consisting of 4,868,000,000 Domestic Shares and 989,000,000 H Shares, which represent approximately 83.11% and 16.89% 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. Resolutions of Our Shareholders

Resolutions were passed on the Shareholders' general meeting on December 17, 2018, pursuant to which, among other things:

(a) the Global Offering, the Listing and the Over-allotment Option were approved;

(b) our Board of Directors and the persons authorized by our Board of Directors were authorized to handle all matters relating to the Listing; and

(c) certain amendments to our articles of association in compliance with the requirements of the Listing Rules and other applicable laws and regulations were approved.

On December 17, 2018, 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.

E. Our Bank's Subsidiary and Changes in its Share Capital

As of the Latest Practicable Date, Qingxu Village and Township Bank was the sole subsidiary of our Bank. Details of Qingxu Village and Township Bank are set forth in Note 21 to the Accountants' Report, the full text of which is set out in Appendix I to this prospectus.

There was no change in the registered share capital of Qingxu Village and Township Bank within two years immediately preceding the issue of this prospectus.

2. FURTHER INFORMATION ABOUT OUR BUSINESS

A. Summary of Our Material Contracts

We 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 share subscription agreement dated August 17, 2017 entered into between our Bank and Huaneng Capital Service Co., Ltd. (華能資本服務有限公司), pursuant to which Huaneng Capital Service Co., Ltd. agreed to subscribe for 600,000,000 Shares for a total consideration of RMB1,914.0 million;

(2) a share subscription agreement dated August 18, 2017 entered into between our Bank and Xiaoyi City Jiayu Coal Industry Co., Ltd. (孝義市嘉禹煤業有限公司), pursuant to which Xiaoyi City Jiayu Coal Industry Co., Ltd. agreed to subscribe for 70,000,000 Shares for a total consideration of RMB223.3 million;

(3) a share subscription agreement dated August 18, 2017 entered into between our Bank and Shanxi Yurong Property Management Co., Ltd. (山西禹榮物業管理有限公司), pursuant to which Shanxi Yurong Property Management Co., Ltd. agreed to subscribe for 20,000,000 Shares for a total consideration of RMB63.8 million;

(4) a share subscription agreement dated August 18, 2017 entered into between our Bank and Quwo County Lvheng Agricultural Development Co., Ltd. (曲沃縣綠恒農業發展有限公司), pursuant to which Quwo County Lvheng Agricultural Development Co., Ltd. agreed to subscribe for 60,000,000 Shares for a total consideration of RMB191.4 million;

(5) a share subscription agreement dated August 18, 2017 entered into between our Bank and Ningwu Luya Mountain Tourism Development Co., Ltd. (寧武蘆芽山旅遊發展有限責任公司), pursuant to which Ningwu Luya Mountain Tourism Development Co., Ltd. agreed to subscribe for 50,000,000 Shares for a total consideration of RMB159.5 million;

(6) a share subscription agreement dated August 18, 2017 entered into between our Bank and Changzhi Nanye Industry Group Co., Ltd. (長治市南燁實業集團有限公司), pursuant to which Changzhi Nanye Industry Group Co., Ltd. agreed to subscribe for 141,287,696 Shares for a total consideration of RMB450,707,751;

(7) a share subscription agreement dated August 18, 2017 entered into between our Bank and Taiyuan Municipal Finance Bureau (太原市財政局), pursuant to which Taiyuan Municipal Finance Bureau agreed to subscribe for 146,142,486 Shares for a total consideration of RMB466,194,531;

(8) a share subscription agreement dated August 18, 2017 entered into between our Bank and Shanxi Lu'an Mining (Group) Co., Ltd. (山西潞安礦業(集團)有限責任公司), pursuant to which Shanxi Lu'an Mining (Group) Co., Ltd. agreed to subscribe for 112,580,495 Shares for a total consideration of RMB359,131,780;

(9) a share subscription agreement dated August 18, 2017 entered into between our Bank and Shanxi Coking Coal Group Co., Ltd. (山西焦煤集團有限責任公司), pursuant to which Shanxi Coking Coal Group Co., Ltd. agreed to subscribe for 91,339,054 Shares for a total consideration of RMB291,371,582;

(10) a share subscription agreement dated August 18, 2017 entered into between our Bank and Changzhi Huashengyuan Mining Co., Ltd. (長治市華晟源礦業有限公司), pursuant to which Changzhi Huashengyuan Mining Co., Ltd. agreed to subscribe for 73,541,069 Shares for a total consideration of RMB234,596,009;

(11) a share subscription agreement dated September 13, 2017 entered into between our Bank and Shanxi Financial Investment Holding Group Co., Ltd. (山西金融投資控股集團有限公司), pursuant to which Shanxi Financial Investment Holding Group Co., Ltd. agreed to subscribe for 235,109,200 Shares for a total consideration of RMB749,998,348;

(12) a cornerstone investment agreement dated June 26, 2019 entered into among our Bank, Shanxi Qinxin Energy Group Co., Ltd. (山西沁新能源集團股份有限公司), CCB International Capital Limited (建銀國際金融有限公司), China International Capital Corporation Hong Kong Securities Limited (中國國際金融香港證券有限公司) and CMB International Capital Limited (招銀國際融資有限公司) pursuant to which Shanxi Qinxin Energy Group Co., Ltd. (山西沁新能源集團股份有限公司) agreed to subscribe for the H Shares in the amount of US$50 million;

(13) a cornerstone investment agreement dated June 26, 2019 entered into among our Bank, Taiyuan Industrial Park Investment Holdings Co., Ltd. (太原工業園區投資控股有限公司), CCB International Capital Limited (建銀國際金融有限公司), China International Capital Corporation Hong Kong Securities Limited (中國國際金融香港證券有限公司) and CMB International Capital Limited (招銀國際融資有限公司) pursuant to which Taiyuan Industrial Park Investment Holdings Co., Ltd. (太原工業園區投資控股有限公司) agreed to subscribe for the H Shares in the amount of US$50 million;

(14) a cornerstone investment agreement dated June 27, 2019 entered into among our Bank, Jinzhong Chen Xing Hui Technology And Trade Company Limited (晉中辰興滙科貿有限公司) (as a guarantor), CCB International Capital Limited (建銀國際金融有限公司), China International Capital Corporation Hong Kong Securities Limited (中國國際金融香港證券有限公司), CMB International Capital Limited (招銀國際融資有限公司) and Chenxing Real Estate Development Co., Ltd. (辰興房地產發展有限公司) pursuant to which Chenxing Real Estate Development Co., Ltd. (辰興房地產發展有限公司) agreed to subscribe for the H Shares in the amount of US$22 million; and

(15) the Hong Kong Underwriting Agreement.

B. Intellectual Property Rights

(a) Trademarks

As of the Latest Practicable Date, we had registered the following trademarks, which are or may be material to our business.

No.	Trademark	Place of Registration	Classes[1]	Registration No.	Valid Period
1.	先得利	PRC	36	20023392	July 7, 2017 to July 6, 2027
2.	盈	PRC	36	11021934	October 7, 2013 to October 6, 2023
3.	多 盈	PRC	36	9614855	August 7, 2012 to August 6, 2022
4.	晋 信	PRC	36	9614853	August 7, 2012 to August 6, 2022

No.	Trademark	Place of Registration	Classes[(1)]	Registration No.	Valid Period
5.	喜 盈	PRC	36	9614849	August 7, 2012 to August 6, 2022
6.	坐享其盈	PRC	36	9614848	August 7, 2012 to August 6, 2022
7.		PRC	30	7253218	August 7, 2010 to August 6, 2020
8.		PRC	29	7253201	October 7, 2010 to October 6, 2020
9.		PRC	28	7253138	October 21, 2010 to October 20, 2020
10.		PRC	25	7253119	September 28, 2010 to September 27, 2020
11.		PRC	24	7253107	October 28, 2010 to October 27, 2020
12.		PRC	21	7253101	July 28, 2010 to July 27, 2020
13.		PRC	20	7253084	July 28, 2010 to July 27, 2020
14.		PRC	19	7253072	July 28, 2010 to July 27, 2020
15.		PRC	17	7252699	July 28, 2010 to July 27, 2020
16.		PRC	16	7252660	August 7, 2010 to August 6, 2020
17.		PRC	34	7252039	October 7, 2010 to October 6, 2020
18.		PRC	33	7252038	September 21, 2010 to September 20, 2020

No.	Trademark	Place of Registration	Classes[1]	Registration No.	Valid Period
19.		PRC	32	7252037	September 21, 2010 to September 20, 2020
20.		PRC	27	7252036	September 21, 2010 to September 20, 2020
21.		PRC	26	7252035	September 28, 2010 to September 27, 2020
22.		PRC	23	7252034	September 21, 2010 to September 20, 2020
23.		PRC	22	7252033	September 28, 2010 to September 27, 2020
24.		PRC	18	7252032	September 28, 2010 to September 27, 2020
25.		PRC	15	7252031	July 28, 2010 to July 27, 2020
26.		PRC	31	7252030	October 7, 2010 to October 6, 2020
27.		PRC	9	7249944	November 14, 2010 to November 13, 2020
28.		PRC	11	7249830	November 7, 2010 to November 6, 2020
29.		PRC	12	7249819	August 7, 2010 to August 6, 2020
30.		PRC	13	7249812	November 7, 2010 to November 6, 2020
31.		PRC	14	7249810	July 28, 2010 to July 27, 2020

No.	Trademark	Place of Registration	Classes(1)	Registration No.	Valid Period
32.		PRC	7	7249800	August 7, 2010 to August 6, 2020
33.		PRC	10	7249746	August 7, 2010 to August 6, 2020
34.		PRC	8	7249720	November 7, 2010 to November 6, 2020
35.		PRC	6	7249653	August 7, 2010 to August 6, 2020
36.		PRC	5	7249487	September 7, 2010 to September 6, 2020
37.		PRC	1	7247058	September 21, 2010 to September 20, 2020
38.		PRC	4	7247000	September 21, 2010 to September 20, 2020
39.		PRC	3	7246987	July 28, 2010 to July 27, 2020
40.		PRC	2	7246968	August 28, 2010 to August 27, 2020
41.		PRC	45	7246779	September 14, 2010 to September 13, 2020
42.		PRC	44	7246743	September 14, 2010 to September 13, 2020
43.		PRC	43	7246730	September 14, 2010 to September 13, 2020
44.		PRC	42	7246716	November 28, 2010 to November 27, 2020
45.		PRC	41	7246704	November 28, 2010 to November 27, 2020

No.	Trademark	Place of Registration	Classes(1)	Registration No.	Valid Period
46.		PRC	40	7246685	December 14, 2010 to December 13, 2020
47.		PRC	39	7245085	November 28, 2010 to November 27, 2020
48.		PRC	37	7245052	December 14, 2010 to December 13, 2020
49.		PRC	36	7245033	December 14, 2010 to December 13, 2020
50.		PRC	35	7245026	September 21, 2010 to September 20, 2020
51.		PRC	38	7245015	December 14, 2010 to December 13, 2020
52.	i分卡	PRC	36	29770989	January 28, 2019 to January 27, 2029
53.		Hong Kong	35, 36	304781791	December 24, 2018 to December 23, 2028
54.	晋商银行 Jinshang Bank 晋商银行 Jinshang Bank	Hong Kong	35, 36	304781782	December 24, 2018 to December 23, 2028

Note:

(1) For details of the classification of goods for trademarks, please see the paragraph headed "– 2. Further Information about Our Business – B. Intellectual Property Rights – (b) Classification of Goods for Trademarks".

(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
35	Advertising; business management; business administration; office functions
36	Insurance; financial affairs; monetary affairs; real estate affairs

(c) Domain Names

As of the Latest Practicable Date, our Bank has registered the following domain names, which are or may be material to our business:

No.	Domain Name	Class of Domain Name	Owner	Valid Period
1.	jshbank.net.cn	PRC	Bank	October 16, 2017 to October 16, 2027
2.	晉商銀行.中國	PRC	Bank	October 20, 2011 to October 20, 2021
3.	晉商銀行.cn	PRC	Bank	October 20, 2011 to October 20, 2021
4.	jshbank.com	International	Bank	October 27, 2008 to October 27, 2028
5.	卡易貸.com	International	Bank	August 26, 2014 to August 26, 2024
6.	晉商e家.com	International	Bank	August 26, 2014 to August 26, 2024
7.	晉商卡.com	International	Bank	August 26, 2014 to August 26, 2024
8.	義通天下.com	International	Bank	August 26, 2014 to August 26, 2024

No.	Domain Name	Class of Domain Name	Owner	Valid Period
9.	晉商銀行股份有限公司.com	International	Bank	August 26, 2014 to August 26, 2024
10.	坐享其盈.com	International	Bank	August 26, 2014 to August 26, 2024
11.	信義貸.com	International	Bank	August 26, 2014 to August 26, 2024
12.	晉商銀行.net	International	Bank	August 26, 2014 to August 26, 2024
13.	Jshbank.net	International	Bank	November 15, 2013 to November 15, 2023
14.	Jshbank.cc	International	Bank	November 15, 2013 to November 15, 2023
15.	晉商銀行.網址	International	Bank	November 28, 2014 to November 28, 2023
16.	jinshangbank.網址	International	Bank	November 28, 2014 to November 28, 2023
17.	晉商e家.網址	International	Bank	August 26, 2014 to August 26, 2024
18.	晉商銀行股份有限公司.網址	International	Bank	November 28, 2014 to November 28, 2023

(d) Copyrights

As of the Latest Practicable Date, our Bank had registered the following copyrights, which are or may be material to our business:

No.	Title	Owner	Place of Registration	Registration Date	Registration No.
1.	Jinshang Bank Mobile Bank Client-side Software V3.0	Bank	PRC	October 24, 2018	2018SR849756

No.	Title	Owner	Place of Registration	Registration Date	Registration No.
2.	Jinshang Bank Direct Selling Client-side Software V2.1.0	Bank	PRC	October 23, 2018	2018SR844999
3.	Jinshang Life Jinshang Bank Credit Card Mobile Terminal Software V1.0.0	Bank	PRC	October 24, 2018	2018SR850272
4.	Jinshang Bank Intelligent Outlet Self-service Platform (Short name: Intelligent Outlet Self-service Platform) V1.0	Bank	PRC	February 28, 2019	2019SR0195366
5.	Jinshang Bank Data Governance Platform (Short name: Data Governance Platform) V1.0	Bank	PRC	February 28, 2019	2019SR0195679
6.	Bio-recognition Technology-based Intelligent Distributed Counter System (Short name: Counter System) V9.5.20	Bank	PRC	February 28, 2019	2019SR0195697

Save as disclosed herein, there are no other trademarks, copyrights, domain names, patents or other intellectual or industrial property rights which are or may be 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 gross loans to customers as of the Latest Practicable Date.

3. FURTHER INFORMATION ABOUT OUR SUBSTANTIAL SHAREHOLDERS, DIRECTORS, MANAGEMENT AND STAFF

A. Substantial Shareholders

So far as the Directors are aware, immediately following the completion of the Global Offering, the following persons (other than our Directors, Supervisors and chief executive of our Bank) 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 us 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 our general meetings:

Interests or short positions of substantial Shareholders in our Shares or underlying Shares

				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
SSCIO[1]	Interest in controlled corporations	Domestic Shares	1,406,430,741	24.55%	28.89%	24.01%	28.89%
Shanxi Financial Investment Holding Group Co., Ltd. (山西金融投資控股集團有限公司).	Beneficial owner	Domestic Shares	715,109,200	12.48%	14.69%	12.21%	14.69%
China Huaneng Group Co., Ltd. (中國華能集團有限公司)[2].	Interest in controlled corporation	Domestic Shares	600,000,000	10.47%	12.33%	10.24%	12.33%
Huaneng Capital Service Co., Ltd. (華能資本服務有限公司).	Beneficial owner	Domestic Shares	600,000,000	10.47%	12.33%	10.24%	12.33%
Taiyuan Municipal Finance Bureau (太原市財政局) . .	Beneficial owner	Domestic Shares	466,142,486	8.14%	9.58%	7.96%	9.58%
Changzhi Nanye Industry Group Co., Ltd. (長治市南燁實業集團有限公司)[3]. .	Beneficial owner	Domestic Shares	450,657,435	7.87%	9.26%	7.69%	9.26%
	Interest in controlled corporation	Domestic Shares	234,569,820	4.10%	4.82%	4.00%	4.82%

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) Approximate % of interest in our Bank	Immediately following the completion of the Global Offering (assuming no exercise of the Over-allotment Option) Approximate % of the relevant class of Shares	Immediately following the completion of the Global Offering (assuming full exercise of the Over-allotment Option) Approximate % of interest in our Bank	Immediately following the completion of the Global Offering (assuming full exercise of the Over-allotment Option) Approximate % of the relevant class of Shares
Ms. WANG Yanli (王岩莉)(3)	Interest in controlled corporations	Domestic Shares	685,227,255	11.97%	14.08%	11.70%	14.08%
Changzhi Huashengyuan Mining Industry Co., Ltd. (長治市華晟源礦業有限公司)(3).	Beneficial owner	Domestic Shares	234,569,820	4.10%	4.82%	4.00%	4.82%
	Interest in controlled corporation	Domestic Shares	450,657,435	7.87%	9.26%	7.69%	9.26%
Shanxi Lu'an Mining (Group) Co., Ltd. (山西潞安礦業(集團)有限責任公司).	Beneficial owner	Domestic Shares	359,091,687	6.27%	7.38%	6.13%	7.38%
Jinneng Group Co., Ltd. (晉能集團有限公司)(4) . .	Interest in controlled corporation	Domestic Shares	300,000,000	5.24%	6.16%	5.12%	6.16%
Shanxi International Electricity Group Limited Company (山西國際電力集團有限公司).	Beneficial owner	Domestic Shares	300,000,000	5.24%	6.16%	5.12%	6.16%
Shanxi Coking Coal Group Co., Ltd. (山西焦煤集團有限責任公司).	Beneficial owner	Domestic Shares	291,339,054	5.09%	5.98%	4.97%	5.98%
Shanxi Qinxin Energy Group Co., Ltd. (山西沁新能源集團股份有限公司)(5). . . .	Beneficial Owner	H Shares	100,589,000	1.76%	11.70%	1.72%	10.17%
Taiyuan Industrial Park Investment Holdings Co., Ltd. (太原工業園區投資控股有限公司)(6).	Beneficial Owner	H Shares	100,589,000	1.76%	11.70%	1.72%	10.17%
Chenxing Real Estate Development Co., Ltd. (辰興房地產發展有限公司)(7).	Beneficial Owner	H Shares	44,259,000	0.77%	5.15%	0.76%	4.48%

Notes:

(1) Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), SSCIO indirectly held 1,406,430,741 Domestic Shares, representing 24.55% equity interest in our Bank. SSCIO's shareholding in our Bank was held through several subsidiaries, including (i) Shanxi Lu'an Mining (Group) Co., Ltd. (山西潞安礦業(集團)有限責任公司) with 6.27% equity interest in our Bank, (ii) Shanxi Coking Coal Group Co., Ltd. (山西焦煤集團有限責任公司) with 5.09% equity interest in our Bank, (iii) Shanxi International Electricity Group Limited Company (山西國際電力集團有限公司) with 5.24% equity interest in our Bank; (iv) Taiyuan Steel (Group) Co., Ltd. (太原鋼鐵(集團)有限公司) with 3.49% equity interest in our Bank; (v) Shanxi Jincheng Anthracite Coal Mining Group Co., Ltd. (山西晉城無煙煤礦業集團有限責任公司) with 3.49% equity interest in our Bank; and (vi) Shanxi Investment Group Co., Ltd. (山西省投資集團有限公司) with 0.98% equity interest in our Bank.

(2) Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), China Huaneng Group Co., Ltd. indirectly held 600,000,000 Domestic Shares, representing 10.47% equity interest in our Bank through Huaneng Capital Service Co., Ltd., in which China Huaneng Group Co., Ltd. held 61.22% equity interest. By virtue of SFO, China Huaneng Group Co., Ltd. is deemed to be interested in the Domestic Shares held by Huaneng Capital Service Co., Ltd.

(3) As of the Latest Practicable Date, Ms. Wang Yanli held 70% equity interest in Changzhi Huashengyuan Mining Industry Co., Ltd. ("**Changzhi Huashengyuan**").

Changzhi Nanye Industry Group Co., Ltd. ("**Changzhi Nanye**") and Changzhi Huashengyuan are parties acting-in-concert according to their respective confirmation. Therefore, immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), each of Ms. Wang Yanli, Changzhi Nanye and Changzhi Huashengyuan will be deemed to be interested in 685,227,255 Domestic Shares, representing 11.97% equity interest in our Bank. By virtue of SFO, Ms. Wang Yanli is deemed to be interested in the Domestic Shares held by both Changzhi Nanye and Changzhi Huashengyuan, while Changzhi Nanye and Changzhi Huashengyuan are deemed to be interested in the Domestic Shares held by each other.

(4) Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), Jinneng Group Co., Ltd., a subsidiary of SSCIO with 64% equity interest, indirectly held 300,000,000 Domestic Shares, representing 5.24% equity interest in our Bank through its wholly-owned subsidiary, Shanxi International Electricity Group Limited Company. By virtue of SFO, Jinneng Group Co., Ltd. is deemed to be interested in the Domestic Shares held by Shanxi International Electricity Group Limited Company.

(5) Shanxi Qinxin Energy Group Co., Ltd. (山西沁新能源集團股份有限公司) is a cornerstone investor of the Bank and has agreed to invest US$50 million to subscribe for the Offer Shares. The relevant Shares calculated herein are based on (a) an exchange rate of HK$7.8259 to US$1.00; and (b) the Offer Price of HK$3.89 (being the mid-point of the indicative Offer Price range), and subject to the rounding down to the nearest whole board lot of 1,000 H Shares.

(6) Taiyuan Industrial Park Investment Holdings Co., Ltd. (太原工業園區投資控股有限公司) is a cornerstone investor of the Bank and has agreed to invest US$50 million to subscribe for the Offer Shares. The relevant Shares calculated herein are based on (a) an exchange rate of HK$7.8259 to US$1.00; and (b) the Offer Price of HK$3.89 (being the mid-point of the indicative Offer Price range), and subject to the rounding down to the nearest whole board lot of 1,000 H Shares.

(7) Chenxing Real Estate Development Co., Ltd. (辰興房地產發展有限公司) is a cornerstone investor of the Bank and has agreed to invest US$22 million to subscribe for the Offer Shares. The relevant Shares calculated herein are based on (a) an exchange rate of HK$7.8259 to US$1.00; and (b) the Offer Price of HK$3.89 (being the mid-point of the indicative Offer Price range), and subject to the rounding down to the nearest whole board lot of 1,000 H Shares.

B. Disclosure of the Directors' and Supervisors' interests in our issued share capital or our associated corporations

Save as disclosed below, 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.

Interests in our Bank

Directors

Name of Director	Capacity	Class of Shares	Number of Shares directly or indirectly held	Approximate % of interest in our Bank	Approximate % of the relevant class of Shares
Mr. YAN Junsheng(1)	Interest of spouse	Domestic Shares	81,191	0.001%	0.002%
Mr. LI Yang(2) . . .	Interest in controlled corporations	Domestic Shares	685,227,255	11.97%	14.08%

Notes:

(1) Ms. HAO Ronghua (郝蓉華), the spouse of Mr. YAN Junsheng, held 81,191 Domestic Shares of our Bank. Mr. YAN Junsheng is deemed to be interested in the Domestic Shares held by Ms. HAO Ronghua under the SFO.

(2) As of the Latest Practicable Date, Mr. Li Yang held 90% equity interest in Changzhi Nanye Industry Group Co., Ltd. ("**Changzhi Nanye**").

Changzhi Nanye and Changzhi Huashengyuan Mining Industry Co., Ltd ("**Changzhi Huashengyuan**") are parties acting-in-concert according to their respective confirmation. Therefore, immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), Mr. Li Yang will be deemed to be interested in 685,227,255 Domestic Shares, representing 11.97% equity interest in our Bank. By virtue of SFO, Mr. Li Yang is deemed to be interested in the Domestic Shares held by both Changzhi Nanye and Changzhi Huashengyuan.

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, 2016, 2017 and 2018 were approximately RMB6.06 million, RMB11.02 million, and RMB9.28 million, respectively.

It is estimated that remuneration equivalent to approximately RMB4.78 million in aggregate will be paid to the Directors and Supervisors by our Bank for the year ending December 31, 2019 based on the arrangements in force as of the date of this prospectus.

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 the section headed "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:

   (i) 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;

(ii) materially interested in any contract or arrangement subsisting as of the date of this prospectus which is significant to our business;

(b) 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;

(c) save as disclosed in "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, 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

(d) save as disclosed in "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 RMB4.5 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	Goods
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
China International Capital Corporation Hong Kong Securities Limited	Licensed corporation under the SFO permitted to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts) and type 6 (advising on corporate finance) regulated activities as defined under the SFO

Name	Goods
CMB International 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
KPMG	Certified Public Accountants
King & Wood Mallesons	Legal advisors as to PRC law

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 September 30, 2018 (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 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 in our Bank;

(b) no share or loan capital 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 Sino-foreign Joint Venture Law of the PRC.

I. Consents

Each of CCB International Capital Limited, China International Capital Corporation Hong Kong Securities Limited, CMB International Capital Limited, KPMG and King & Wood Mallesons 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 Taiyuan Municipal Finance Bureau, and the original shareholders of 47 urban credit cooperatives in Taiyuan and Taiyuan Urban Credit Cooperative Union (太原市城市信用合作社聯合社).

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.

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 entitled "4. Other Information – I. Consents" in Appendix VII to this prospectus; and

(c) copies of the material contracts referred to in the paragraph entitled "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 consolidated financial information of the Group for each of the three years ended December 31, 2016, 2017 and 2018, the text of which is set forth in Appendix I to this prospectus;

(c) the unaudited supplementary financial information of the Group, 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 the Group, the text of which is set forth in Appendix III to this prospectus;

(e) the audited consolidated financial statements of the Group for each of the three years ended December 31, 2016, 2017 and 2018;

(f) the material contracts referred to in the paragraph entitled "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 entitled "4. Other Information – I. Consents" in Appendix VII to this prospectus;

(h) the service contracts referred to in the paragraph entitled "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 King & Wood Mallesons, 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 Group; 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.

晋商银行
Jinshang Bank