盛京銀行
SHENGJING BANK

GLOBAL OFFERING

SHENGJING BANK CO., LTD.

(A joint stock company incorporated in the People's Republic of China with limited liability) Stock Code: 2066

Sole Sponsor

CMS 招商证券

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

CMS 招商证券

UOBKayHian

Joint Bookrunners and Joint Lead Managers

建银国际 CCB International

盛源證券有限公司 SHENG YUAN SECURITIES LIMITED

海通國際 HAITONG

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

SHENGJING BANK CO., LTD.*
盛京銀行股份有限公司*

(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	:	**1,375,000,000 H Shares (comprising 1,250,000,000 H Shares to be offered by our Bank and 125,000,000 Sale Shares to be offered by the Selling Shareholders, subject to the Over-Allotment Option)**
Number of Offer Shares in the International Offering	:	**1,306,250,000 H Shares (subject to adjustment and the Over-Allotment Option)**
Number of Hong Kong Offer Shares	:	**68,750,000 H Shares (subject to adjustment)**
Maximum Offer Price	:	**HK$7.81 per H Share, plus brokerage of 1%, SFC transaction levy of 0.0027%, and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)**
Nominal value	:	**RMB1.00 per H Share**
Stock code	:	**2066**

Sole Sponsor

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

Joint Bookrunners and Joint Lead Managers

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in Appendix VIII – "Documents Delivered to the Registrar of Companies and Available for Inspection" to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and us (on behalf of ourselves and the Selling Shareholders) on the Price Determination Date, which is expected to be on or around Friday, December 19, 2014 (Hong Kong time) and, in any event, not later than Wednesday, December 24, 2014 (Hong Kong time). The Offer Price will be not more than HK$7.81 per H Share and is currently expected to be not less than HK$7.43 per H Share. Investors applying for the Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK$7.81 per Hong Kong Offer Share, unless otherwise announced, together with a brokerage fee of 1%, a Hong Kong Stock Exchange trading fee of 0.005% and a SFC transaction levy of 0.0027%, subject to refund if the Offer Price should be lower than HK$7.81.

The Joint Global Coordinators (on behalf of the Underwriters) may, with our consent (on behalf of ourselves and the Selling Shareholders), reduce the number of Offer Shares being offered in the Global Offering and/or the indicative offer price range below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, a notice of the reduction in the number of Offer Shares being offered in the Global Offering and/or the indicative offer price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of our Bank at www.shengjingbank.com.cn and the website of the Hong Kong Stock Exchange at www.hkexnews.hk not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. For further information, see "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

If, for any reason, the Offer Price is not agreed on or before Wednesday, December 24, 2014 between the Joint Global Coordinators (on behalf of the Underwriters) and us (on behalf of ourselves and the Selling Shareholders), the Global 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 PRC and Hong Kong, and that there are different risk factors relating to investment in PRC-incorporated companies. 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. Such differences and risk factors are set forth in the sections entitled "Risk Factors," "Supervision and Regulation," Appendix IV – "Summary of Principal Legal and Regulatory Provisions" and Appendix V – "Summary of Articles of Association" in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Global Coordinators (on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set forth in the section entitled "Underwriting – Hong Kong Underwriting Arrangements – Hong Kong Public Offering – Grounds for Termination" of this prospectus.

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

* *Shengjing Bank Co., Ltd. is 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 and/or deposit-taking business in Hong Kong.*

December 15, 2014

Latest time to complete electronic applications under **White Form eIPO** service through the designated website **www.eipo.com.hk**[2]	11:30 a.m. on Thursday, December 18, 2014
Application lists open[3]	11:45 a.m. on Thursday, December 18, 2014
Latest time to lodge **WHITE** and **YELLOW** Application Forms.	12:00 noon on Thursday, December 18, 2014
Latest time to give **electronic application instructions** to HKSCC[4]	12:00 noon on Thursday, December 18, 2014
Latest time to complete payment of **White Form eIPO** applications by effecting Internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Thursday, December 18, 2014
Application lists close	12:00 noon on Thursday, December 18, 2014
Expected Price Determination Date[5]	Friday, December 19, 2014

(1) Announcement of:

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

to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), and on the website of the Hong Kong Stock Exchange at **www.hkexnews.hk** and the Bank's website at **www.shengjingbank.com.cn**[6] on or before	Wednesday, December 24, 2014

(2) Announcement of results of allocations in the Hong Kong Public Offering (including successful applicants' identification document numbers, where appropriate) will be available through a variety of channels (see "How to Apply for Hong Kong Offer Shares – 11. Publication of Results") from . . . . Wednesday, December 24, 2014

Results of allocations in the Hong Kong Public Offering will be available at **www.iporesults.com.hk** with a "search by ID" function . . . . Wednesday, December 24, 2014

H Share certificates in respect of wholly or partially successful applications to be dispatched on or before[7][8] . . . . Wednesday, December 24, 2014

White Form e-Refund payment instructions/refund cheques in respect of wholly or partially unsuccessful applications to be dispatched on or before[8][9][10] . . . . Wednesday, December 24, 2014

Dealings in H Shares on the Hong Kong Stock Exchange expected to commence on . . . . Monday, December 29, 2014

Notes:

(1) All times refer to Hong Kong local time, except otherwise stated. Details of the structure of the Global Offering, including conditions of the Hong Kong Public Offering, are set forth in the section entitled "Structure of the Global Offering" of this prospectus.

(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 prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(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, December 18, 2014, the application lists will not open on that day. See the paragraph headed "10. Effect of Bad Weather on the Opening of the Application Lists" in the section entitled "How to Apply for Hong Kong Offer Shares" of this prospectus.

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

(5) The Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or about Friday, December 19, 2014, and in any event no later than Wednesday, December 24, 2014. If, for any reason, the Offer Price is not agreed on or before Wednesday, December 24, 2014, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

(6) None of the websites or any of the information contained on the websites 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 Monday, December 29, 2014, provided that (i) the Global Offering has become unconditional in all respects and (ii) the Underwriting Agreements have not been terminated in accordance with their respective terms. Investors who trade H Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.

(8) Applicants who apply for 1,000,000 or more Hong Kong Offer Shares and have provided all required information may collect refund cheques (where applicable) and H Share certificates (where applicable) in person from our H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, December 24, 2014. Applicants being individuals who opt for personal collection must not authorize any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorized representatives each bearing a letter of authorization from his corporation stamped with the corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. Uncollected refund cheques and H Share certificates will be dispatched promptly by ordinary post to the addresses as specified in the applicants' Application Forms at the applicants' own risk. Details of the arrangements are set out in the section entitled "How to Apply for Hong Kong Offer Shares" of this prospectus.

(9) Applicants who apply through the **White Form eIPO** service and paid their application monies through single bank accounts may have refund monies (if any) dispatched to the application payment account, in the form of e-Refund payment instructions. Applicants who apply through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions through the **White Form eIPO** service, in the form of refund cheques, by ordinary post at their own risk.

(10) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the Offer Price is less than the price payable on application.

(11) The eve of Christmas, Wednesday, December 24, 2014 is a non-settlement day. Settlement services under CCASS including Settlement Instructions (as defined under the General Rules of CCASS) and Investor Settlement Instructions (as defined under the General Rules of CCASS) will not be available on that day.

This prospectus is issued by Shengjing Bank Co., Ltd. solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong, and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not 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 Selling Shareholders, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors or supervisors, or any other person or party involved in the Global Offering.

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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

Headquartered in Shenyang, Liaoning Province, we are the largest city commercial bank in terms of total assets and net profits in Northeast China. As of December 31, 2013, our total assets were RMB355,432 million, accounting for 31.7% of the aggregate total assets of all city commercial banks in Liaoning Province as of the same date. In 2013, our net profit was RMB4,889 million, accounting for 37.2% of the aggregate net profits of all city commercial banks in Liaoning Province in the same period. As of December 31, 2011, 2012 and 2013, we ranked second among all commercial banks in Shenyang for three consecutive years in terms of total RMB-denominated loans to customers and total RMB-denominated customer deposits. As of the same dates, we ranked first among all commercial banks in Shenyang for three consecutive years in terms of RMB-denominated corporate deposits. In each of 2011, 2012 and 2013, we ranked first among all commercial banks in Shenyang for three consecutive years in terms of the annual increase in total personal deposits. See "Industry Overview – Current Competitive Landscape of Banking Industry in China and in Liaoning Province" from pages 94 to 96 of this prospectus.

We have achieved rapid growth, and continued to improve our profitability and asset quality in recent years. From 2011 to 2013, our net profit grew at a CAGR of 36.8% from RMB2,612 million to RMB4,889 million. In addition, our net profit increased by 15.9% from RMB2,162 million for the six months ended June 30, 2013 to RMB2,505 million for the same period in 2014. Our net profit ranked first among the city commercial banks in Northeast China for three consecutive years from 2011 to 2013. While we focus on achieving rapid growth of our business, we also maintain prudent risk management and internal control, with an emphasis on maintaining sound asset quality. As of December 31, 2011, 2012 and 2013 and June 30, 2014, our non-performing loan ratios were 0.63%, 0.54%, 0.46% and 0.44%, respectively.

We have an extensive distribution network covering substantially all prefecture-level cities and county-level cities in Liaoning Province. As of June 30, 2014, in addition to the six county banks that we accounted for as subsidiaries in our consolidated financial statements, we operated our business in 14 cities, including Shenyang, Beijing, Shanghai, Tianjin, Changchun, Dalian and other cities in Liaoning Province through our head office, 143 branches and sub-branches (of which 126 outlets were located in major cities in Northeast China, and 97 outlets were located in Shenyang) and 537 self-service banking facilities. We also offer financial service stations, online banking services, telephone banking services and mobile banking services, and expect to launch television banking services by the end of 2014, to expand our distribution network. Through our extensive marketing network, we provide a broad range of corporate and retail banking products and services.

We focus on establishing and maintaining long-term and comprehensive strategic cooperative relationships with core enterprise customers that are leaders in their respective industries or regions as well as with governmental entities and public institutions thereunder in Liaoning Province and Shenyang. Leveraging upon our core customers, we further source and develop quality customers from our core customers' upstream suppliers and downstream distributors in the industry chain. We have also established mid- and long-term strategic cooperation relationships with public utility companies in Liaoning Province, pursuant to which we provide these customers with a wide range of comprehensive banking services such as payroll service, collection of public utility bills and investment and financing services. The public institutions to whom we offer payroll services provide us with a stable source of corporate deposits and interest income. In addition, such relationships help us to strengthen and expand our base of individual customers who open accounts with us to receive their salaries thereby increasing our deposits. In addition, through cross-selling of our products and services and enhancing customer loyalty, we encourage individual customers who receive their salaries in their payroll account with us to use more of our products and services, thereby creating synergies between our corporate banking and retail banking businesses. We have also fostered comprehensive cooperation relationships with governmental entities in Liaoning Province through strategic cooperation agreements to promote financial services for medium, small and micro enterprises.

We have continuously received the "Second Regulatory Rating" (highest rating ever received by city commercial banks in the PRC) granted by the CBRC since 2008, and have received a number of honors and awards for our business performance, management capability and corporate governance. For example, in 2014, our profits on Tier 1 capital ranked 83rd globally and ranked 7th in the PRC banking industry, and our return on assets ranked 214th globally and ranked 25th in the PRC banking industry in the list compiled by The Banker; in 2014, we ranked first among the city commercial banks with total assets of RMB200 billion or above in China for the year 2013, and were named the "Best City Commercial Bank" in the "Evaluation Report of the Competitiveness among PRC Commercial Banks in 2014" published by The Chinese Banker and in 2013, our rate of return on equity ranked 6th among Asian banks and 4th among PRC banks in the list compiled by Yazhou Zhoukan (亞洲周刊).

We operate three principal lines of business: corporate banking, retail banking and treasury business. The following table sets forth the contribution of each line of business to our total operating income for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2011		2012		2013		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount (unaudited)	% of total	Amount	% of total
	(in millions of RMB, except percentages)									
Corporate banking	4,865	89.9%	5,988	86.7%	6,711	75.4%	2,956	73.6%	3,885	74.2%
Retail banking	278	5.1	348	5.0	424	4.8	201	5.0	243	4.6
Treasury business	240	4.4	538	7.8	1,594	17.8	859	21.3	1,214	23.2
Others(1)	31	0.6	34	0.5	176	2.0	3	0.1	(103)	(2.0)
Total	5,414	100.0%	6,908	100.0%	8,905	100.0%	4,019	100.0%	5,239	100.0%

Note:

(1) Others primarily include income from investment in associates. In the six months ended June 30, 2014, the operating loss from others include primarily the losses from cessation of significant influence over investment in an associate of RMB127 million. See "Financial Information – Result of Operations – Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013 – Net Trading (Losses)/Gains, Net (Losses)/Gains Arising from Financial Investments and Other Operating Income – Net (Losses)/Gains Arising from Financial Investments" on page 396 of this prospectus for details.

In recent years, we have been using funds at our disposal to invest in trust beneficiary rights. As of December 31, 2011, 2012 and 2013, and June 30, 2014, the balance of our investment in trust beneficiary rights was RMB1,814 million, RMB15,135 million, RMB11,743 million and RMB13,850 million, respectively, representing 0.8%, 4.8%, 3.3% and 3.1% of our total assets, respectively. The risks relating to our investments in trust beneficiary rights include: (i) their limited liquidity due to lack of an active secondary market for such investment; (ii) any future changes in regulatory policies which may prohibit us or our counterparties from making such investments; and (iii) any potential failure to timely and accurately identify all potential risks lying with the borrowers and the projects to be funded. See "Risk Factors – Risks Relating to Our Business – We have used funds at our disposal to invest in trust beneficiary rights, and any adverse changes with respect to this type of investment may have a material adverse effect on our profitability and liquidity of assets" on page 44 of this prospectus. In order to control risks with respect to the trust beneficiary rights, we have taken a number of preventive measures, including a centralized credit management system, a counterparty evaluation system that requires the financing parties or other third parties to provide full guarantees for the principal and expected yields under the trust beneficial rights by collateral, pledges or guarantees. For more details, please see "Risk Management – Credit Risk Management – Credit Risk Management for Treasury Business – Credit Risk Management for Investment Business – Investments in Debt Instruments Issued by Financial Institutions" on page 272 of this prospectus.

For details of our business, please see "Business – Our Principal Businesses" from pages 194 to 222 of this prospectus.

We have invested in six county banks by holding equity interests ranging from 20% to 40%. We have consolidated such six county banks that we established as a promoter and control in our consolidated financial statements since June 28, 2012 according to IFRS 10. When assessing the control over the six county banks, we considered the following major factors: (i) our decision-making power over the county banks, (ii) our equity exposure in terms of our respective share of the dividends and residual interests in the net assets of the county banks upon liquidation, and (iii) the nature and magnitude of our additional exposure to the business risk of the county banks. See "Our History and Operational Reform – Our Shareholding and Corporate Structure" from pages 167 to 172 of this prospectus, "Financial Information – Financial Position – Capital Resources – Investments in Subsidiaries" on page 429 of this prospectus and Note 21 to our consolidated financial statements set forth in Appendix I – "Accountants' Report" to this prospectus.

OUR STRENGTHS

Our key competitive strengths include:

- We are a leading city commercial bank in Northeast China and have benefited from the favorable policies in, and significant market opportunities arising from, the rapid economic development of Northeast China, the Bohai Economic Rim and the Yangtze River Delta Economic Zone;
- We are an industry leader in terms of profitability and effective cost control which have contributed to high returns for our shareholders;
- We enjoyed competitive advantages of corporate banking as we have secured high quality core customers and a stable customer base;
- Supported by our brand recognition, wide range of services and financing channels as well as our broad retail banking customer base, we have achieved rapid growth in our retail banking business;
- We have maintained sound asset quality due to prudent and comprehensive risk management; and
- We have a management team with extensive experience in the industry and a highly qualified workforce.

For details of our strengths, please see "Business – Our Strengths" from pages 179 to 186 of this prospectus.

OUR STRATEGIES

Our strategic objectives are as follows: (i) as we carry out our strategy to establish a multi-channel financial network, we plan to build upon our base in Northeast China and our networks in the Bohai Economic Rim and the Yangtze River Delta Economic Zone, to establish a presence in the Pearl River Delta Economic Zone, and to become an innovative and quality bank with a national coverage; (ii) we aim to become a leading bank in China and throughout Asia in terms of high asset quality by taking an adaptive risk management approach; (iii) we strive to create greater shareholder value through effective management policies and procedures; and (iv) we endeavor to maintain our strong growth momentum and become a bank with a clear competitive edge.

We have positioned ourselves as a bank that can "promote the strategic development of regional economies, fuel the development of emerging industries, support small and medium enterprises and provide caring services to ordinary citizens". We plan to achieve our strategic objectives by taking the following measures:

- Building upon our regional leadership position, implementing our strategies of expanding operations outside Liaoning Province and diversifying our operations;
- Maintaining our leading position in corporate banking business and optimizing our customer base;
- Proactively expanding our retail banking business and enhancing the comprehensive strength of our retail banking business;
- Optimizing our operating income mix by aggressively developing treasury business and investment banking businesses;
- Further enhancing our risk management capabilities, and improving our risk control system;
- Recruiting, motivating and training qualified personnel;
- Continuing to improve our financial management expertise and optimizing resource allocation; and
- Accelerating the offering of electronic financial services and optimizing our information systems.

For details of our strategies, please see "Business – Our Strategies" from pages 186 to 193 of this prospectus.

RISK FACTORS

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

The major risks relating to an investment in our Shares are as follows:

- If we are unable to effectively maintain the quality of our loan portfolio, our business, financial condition and results of operations may be materially and adversely affected.
- Our allowance for impairment losses on loans may not be sufficient to cover the actual losses on our loan portfolio in the future.
- The collateral, pledges or guarantees securing our loans may not be sufficient or fully realizable.
- We are subject to risks of having our business concentrated in Northeast China and the uncertainties relating to government policies to promote the development of Northeast China.
- We cannot assure you that we will be successful in expanding our business lines as planned, and the expansion of the range of our products and services may also expose us to new risks.

- Our results of operations may be affected by changes in interest rate and other market risks.

- We face intense competition from other participants of the PRC banking industry, as well as competition from alternative investment and financing channels.

For details of the risk factors relating to the investment in us, please see "Risk Factors" from pages 31 to 62 of this prospectus. You should read the section in its entirety before you decide to invest in our Shares.

SUMMARY HISTORICAL FINANCIAL INFORMATION

You should read the summary historical financial information set forth below in conjunction with our financial information included in the Accountants' Report set forth in Appendix I to this prospectus, which are prepared in accordance with IFRS and the sections headed "Description of Our Assets and Liabilities" and "Financial Information" of this prospectus. The summary historical statement of comprehensive income information for the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2013 (unaudited) and the six months ended June 30, 2014 and the summary historical statement of financial position information as of December 31, 2011, 2012 and 2013 and June 30, 2014 set forth below are derived from Appendix I – "Accountants' Report" to this prospectus.

Selected Consolidated Income Statements Data

	Year ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013 (unaudited)	2014
	(in millions of RMB)				
Interest income	10,177	13,835	18,038	8,311	11,876
Interest expense	(4,832)	(7,051)	(10,194)	(4,678)	(7,256)
Net interest income	5,345	6,784	7,844	3,633	4,620
Fee and commission income	105	156	828	306	746
Fee and commission expense	(40)	(44)	(58)	(25)	(40)
Net fee and commission income	65	112	770	281	706
Net trading (losses)/gains	(30)	3	(2)	1	6
Net (losses)/gains on financial investments	(11)	(32)	208	93	(112)
Other operating income	45	41	85	11	19
Operating income	5,414	6,908	8,905	4,019	5,239
Operating expenses	(1,727)	(2,017)	(2,445)	(1,144)	(1,590)
Impairment losses on assets	(446)	(432)	(172)	(143)	(369)
Operating profit	3,241	4,459	6,288	2,732	3,280
Share of profits of associates	34	24	20	22	2
Profit before taxation	3,275	4,483	6,308	2,754	3,282
Income tax expense	(663)	(974)	(1,419)	(592)	(777)
Profit for the year/period	2,612	3,509	4,889	2,162	2,505

See "Financial Information – Selected Financial Data" on page 376 for more details.

Selected Historical Consolidated Statements of Financial Position Data

	As of December 31,			As of June 30,
	2011	2012	2013	2014
	(in millions of RMB)			
Assets				
Cash and deposits with central bank	48,145	53,692	65,238	68,394
Deposits with banks and other financial institutions	16,235	62,276	62,233	94,578
Placements with banks and other financial institutions	–	3,000	61	384
Financial assets at fair value through profit or loss	305	301	–	–
Financial assets held under resale agreements	4,274	8,930	15,706	15,350
Loans and advances to customers	96,762	112,271	131,558	145,523
Financial investments	49,522	66,671	73,783	116,604
Interest in associates	390	267	287	–
Property and equipment	2,401	2,418	2,522	3,009
Deferred tax assets	37	176	238	159
Other assets	3,136	3,240	3,806	5,126
Total assets	221,207	313,242	355,432	449,127
Liabilities				
Deposits from banks and other financial institutions	13,138	38,554	41,327	68,816
Placements from banks and other financial institutions	1,560	5,620	1,190	1,717
Financial assets sold under repurchase agreements	19,143	40,773	20,919	45,391
Deposits from customers	171,474	207,987	262,913	295,934
Income tax payable	1	264	424	376
Debt securities issued	2,100	2,100	900	3,100
Other liabilities	2,433	3,286	6,289	8,191
Total liabilities	209,849	298,584	333,962	423,525
Equity	11,358	14,658	21,470	25,602
Total liabilities and equity	221,207	313,242	355,432	449,127

See "Financial Information – Selected Financial Data" on page 377 of this prospectus for more details.

Selected Financial Ratios

	Year ended December 31,			Six months ended June 30,
	2011	2012	2013	2014
Profitability indicators				
Return on average total assets(1)(7)	1.24%	1.31%	1.46%	1.25%
Return on average equity(2)(7)	28.47%	26.98%	27.06%	21.29%
Net interest spread(3)(7)	2.59%	2.52%	2.17%	2.07%
Net interest margin(4)(7)	2.70%	2.68%	2.39%	2.31%
Net fee and commission income to operating income(5)	1.20%	1.62%	8.65%	13.48%
Cost-to-income ratio(6)	23.97%	20.80%	19.00%	21.17%

Notes:

(1) Represents the net profit for the period as a percentage of the average balance of total assets at the beginning and the end of the period.

(2) Represents the net profit for the period as a percentage of the average balance of total equity at the beginning and the end of the period.

(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 daily average balance of total interest-earning assets.

(5) Calculated by dividing net fee and commission income by operating income.

(6) Calculated by dividing total operating expenses (excluding business tax and surcharges) by operating income.

(7) Calculated on annual basis.

In 2011, 2012 and 2013 and the six months ended June 30, 2014, our net interest spread was 2.59%, 2.52%, 2.17% and 2.07% (annualized), respectively, and our net interest margin was 2.70%, 2.68%, 2.39% and 2.31% (annualized), respectively. The net interest spread and net interest margin decreased during the same periods primarily because (i) the proportion of the average balance of loans and advances to customers to total interest-earning assets decreased and (ii) the proportion of time deposits to total interest-bearing liabilities increased. See "Financial Information – Result of Operations – Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013 – Net Interest Income – Net Interest Spread and Net Interest Margin" on page 392 and "Financial Information – Result of Operations – Comparison of 2013, 2012 and 2011 – Net Interest Income – Net Interest Spread and Net Interest Margin" on page 414 of this prospectus. For more details about financial ratios, see "Financial Information – Selected Financial Data" from pages 376 to 380 of this prospectus.

	Regulatory requirement	As of December 31,			As of June 30,
		2011	2012	2013	2014
Capital adequacy indicators					
Calculated based on Capital Adequacy Measures					
Core capital adequacy ratio(1)	≥4%	8.92%	9.39%	N/A	N/A
Capital adequacy ratio(2)	≥8%	12.02%	11.92%	N/A	N/A
Calculated based on Capital Administrative Measures					
Core Tier 1 capital adequacy ratio(3)	≥5.5%	N/A	N/A	10.07%	9.77%
Tier 1 capital adequacy ratio(4)	≥6.5%	N/A	N/A	10.07%	9.77%
Capital adequacy ratio(5)	≥8.5%	N/A	N/A	11.17%	11.61%
Total equity to total assets	N/A	5.1%	4.7%	6.0%	5.7%
Asset quality indicators					
Non-performing loan ratio(6)	≤5%	0.63%	0.54%	0.46%	0.44%
Allowance to non-performing loans(7)	≥150%(9)	260.94%	302.44%	306.53%	343.96%
Allowance to total loans(8)	≥2.5%(9)	1.64%	1.63%	1.41%	1.50%
Other indicators					
Loan-to-deposit ratio	≤75%	57.37%	54.87%	50.75%	49.92%

Notes:

(1) Core capital adequacy ratio = (core capital - core capital deductions)/(risk-weighted assets + 12.5 x capital charge for market risk).

(2) Capital adequacy ratio = (total capital - capital deductions)/(risk-weighted assets + 12.5 x capital charge for market risk).

(3) Core Tier 1 capital adequacy ratio = (core Tier 1 capital - core Tier 1 capital deductions)/risk-weighted assets. For the components of regulatory capital and risk-weighted assets, see "Supervision and Regulation – Supervision over Capital Adequacy – Latest CBRC Supervisory Standards Over Capital Adequacy", from pages 129 to 135 of this prospectus, and "Financial Information – Financial Position – Capital Resources – Capital Adequacy" in this prospectus, from pages 430 to 433 of this prospectus.

(4) Tier 1 capital adequacy ratio = (Tier 1 capital - Tier 1 capital deductions)/risk-weighted assets.

(5) Capital adequacy ratio = (total capital - capital deductions)/risk-weighted assets.

(6) Non-performing loan ratio = total non-performing loans/total loans and advances to customers.

(7) Allowance to non-performing loans = the allowance for impairment losses/total non-performing loans.

(8) Allowance to total loans = the allowance for impairment losses on total loans and advances to customers/total loans and advances to customers.

(9) Not applicable to the Bank until December 31, 2016.

As of December 31, 2011 and 2012, our core capital adequacy ratio calculated under the Capital Adequacy Measures was 8.92% and 9.39%, respectively, and our capital adequacy ratio calculated under the Capital Adequacy Measures was 12.02% and 11.92%, respectively. The ratios as of December 31, 2011 and 2012 were in compliance with the CBRC requirements. As of December 31, 2013, based on the calculation under the Capital Administrative Measures, our core Tier 1 capital adequacy ratio was 10.07%, our Tier 1 capital adequacy ratio was 10.07%, and our capital adequacy ratio was 11.17%, which were in compliance with the CBRC requirements pursuant to the transitional requirements as applicable on December 31, 2013. As of June 30, 2014, based on the calculation under the Capital Administrative Measures, our core Tier 1 capital adequacy ratio was 9.77%, our Tier 1 capital adequacy ratio was 9.77%, and our capital adequacy ratio was 11.61%, which were in compliance with the CBRC requirements pursuant to the transitional requirements as applicable on December 31, 2013. Please see "Financial Information – Financial Position – Capital Resources – Capital Adequacy" from pages 430 to 433 of this prospectus for more details.

We plan to replenish our capital mainly through the following measures: (i) using accumulated undistributed profits to continue to replenish the core capital; (ii) establishing an effective long-term capital replenishment mechanism, including, using the net proceeds of the Global Offering to strengthen our capital base, and based on our business development, issuing Tier 2 capital bonds and other alternative capital instruments to the extent permitted by applicable laws and regulations to replenish our capital; (iii) enhancing the daily measurement and monitoring of the capital adequacy ratios, strictly controlling the growth of risk-weighted assets and (iv) developing small and micro enterprise loans and intermediary business, in order to continue to comply with the relevant requirements on capital adequacy ratios during the transition period. See "Supervision and Regulation – Supervision Over Capital Adequacy – Introduction of the New Leverage Requirements – Basel Accords" from pages 143 to 145 of this prospectus for more details.

OFFERING STATISTICS

The statistics in the following table are based on the assumptions that (i) the Global Offering is completed and 1,250,000,000 H Shares are newly issued in the Global Offering, (ii) the Over-Allotment Option for the Global Offering is not exercised, and (iii) 5,646,005,200 Shares are issued and outstanding following the completion of the Global Offering:

	Based on an Offer Price of HK$7.43	**Based on an Offer Price of HK$7.81**
Market capitalization of our Shares . .	HK$41,950 million	HK$44,095 million
Pro forma adjusted consolidated net tangible assets per Share[1]	RMB5.72 (HK$7.21)	RMB5.78 (HK$7.28)

Note:

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

DIVIDEND POLICY

In March 2012, we declared cash dividends of RMB370 million in respect of profits for the year ended December 31, 2011 and we have paid such dividend. In May 2014, we declared cash dividends of RMB410 million in respect of profits for the year ended December 31, 2013 and we have paid such dividend. The Bank confirms that there shall be no dividend to be declared or paid prior to the Listing. Declared and unpaid dividends, including dividends payables to untraceable shareholders, are treated as a "dividend payable" item under "other liabilities" in our financial statement. 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.

According to the resolution of "Proposed Issuance of H Shares and the Listing on the HKSE by Shengjing Bank Co., Ltd." passed at the second temporary shareholders' general meeting held in April 2014, to the extent that any of the profits accumulated prior to the Global Offering are distributed after the Global Offering, such profits will be distributed to all the then-existing shareholders. In addition, according to the PRC Company Law and the Articles of Association of the Bank, all shareholders have an equal right to receive dividend distributions.

In compliance with the relevant PRC laws and regulations, the requirements of the securities regulatory authorities of the jurisdictions where our Shares are listed and our Articles of Association, as well as taking into account of the interests of our shareholders and the needs of our business development, for the year ended December 31, 2014 and going forward, our Board of Directors will develop a dividend distribution plan for submission to our shareholders' general meetings for approval. Pursuant to our Articles of Association, our dividend policy should be based on the principle of providing the investors with reasonable investment return and benefiting the long-term development of our Bank. We may pay dividends by way of distributing new Shares or making cash payments to shareholders. We will determine whether to distribute any dividends, and in what amount, based on factors, including our results of operations, capital adequacy ratios, cash flow, financial condition, status of business operations and future prospects, our shareholders' interests, statutory and regulatory restrictions on our dividend distribution. Pursuant to our Articles of Association, after the Global Offering, we may only pay dividends out of our profit after tax. Profit after tax for a given year represents net profit as determined under the PRC GAAP or the IFRS or the applicable accounting standards of the overseas jurisdictions where our Shares are listed, whichever is the lowest. For further details, see "Financial Information – Dividend Policy" on pages 445 and 446 of this prospectus.

INFORMATION ON SUBSTANTIAL SHAREHOLDER

According to the definition of the Hong Kong Listing Rules, as at the Latest Practicable Date, Shenyang Hengxin was the Bank's sole substantial shareholder. As of the Latest Practicable Date, Shenyang Hengxin directly held approximately 10.92% of the equity interest in the Bank. Immediately after the Global Offering and assuming that the Over-Allotment Option is not exercised, Shenyang Hengxin would directly hold approximately 8.50% of the then-total issued Shares of the Bank (or approximately 8.23% assuming that the Over-Allotment Option is fully exercised).

Shenyang Hengxin is mainly engaged in asset management, capital operations and industry investments. It was established on April 10, 2002, and is wholly owned by Shenyang Industrial Investment Development Group Co., Ltd. (瀋陽產業投資發展集團有限公司). Shenyang Industrial Investment Development Group Co., Ltd. is a wholly-owned subsidiary of Shenyang SASAC. Please refer to the section entitled "Substantial Shareholders" on pages 314 to 316 of this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

We estimate that the net proceeds of the Global Offering which we will receive, assuming an Offer Price of HK$7.62 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK$9,218 million, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering and assuming the Over-Allotment Option is not exercised. We intend to use the net proceeds of the Global Offering to strengthen our capital base to support the ongoing growth of our business. We will not receive any of the proceeds from the sale of the Sale Shares by the Selling Shareholders pursuant to the Global Offering. For more details on our plans of using the proceeds of the Global Offering, please refer to the section entitled "Future Plans and Use of Proceeds" on page 450 of this prospectus.

RECENT DEVELOPMENTS

Our business and operating income has been experiencing continued growth since June 30, 2014, the date of the latest audited financial information of our Bank as set forth in Appendix I – "Accountants' Report" to this prospectus. Our Directors have confirmed that, since June 30, 2014 and up to the date of this prospectus, there has been no material adverse change in our financial or trading position.

With effect from November 22, 2014, the PBOC lowered the benchmark interest rates on loans and deposits and raised the maximum interest rates for RMB-denominated deposits from 110% to 120% of the PBOC benchmark interest rate. We therefore raised our interest rates on deposits to 120% of the benchmark interest rate. See "Supervision and Regulation – Pricing of Products and Services – Interest Rates for Loans and Deposits", from pages 124 to 126 of this prospectus. We will continue to monitor and manage the interest rate risk arising from the recent and future adjustments of PBOC benchmark interest rates on loans and deposits, through optimizing the maturity portfolio of our assets and liabilities, interest rate exposure analysis, duration analysis and other analysis tools to enhance quota management. See "Risk Management – Market Risk Management – Market Risk Management for the Banking Book – Interest Rate Risk Management" on page 275 of this prospectus.

The Bank applied for registration of a trademark on March 12, 2007 in the PRC. During the application process, an individual (the "Objector") raised an objection on the ground that the trademark the Bank applied for registration was for the use on the same or similar product of, and bore resemblance to, his registered trademark "盛京圍場 (Shengjing Paddock)" (trademark registration number 4661937), and that the Bank's trademark application constituted malicious preemptive registration and had infringed on the preexisting right of the Objector. The Trademark Review and Adjudication Board dismissed the objection and approved the registration of our trademark. Thereafter, the Objector filed an administrative litigation against the Trademark Review and Adjudication Board calling for the revocation of the ruling of approving the registration of our trademark. The hearing of the administrative litigation took place on October 13, 2014. We are involved as a third party to this litigation. On December 8, 2014, the Bank received the judgment rendered by Beijing No. 1 Intermediate People's Court, in which the Objector's claim was dismissed. See "Risk Factors – Risks relating to our business – We have not completed the trademark registration for our important logos in China. If we fail to register the trademark, our right to use the logo in business operations may be affected, and we may face infringement claims brought by third parties and may suffer losses as a result", from pages 48 to 49 of this prospectus, "Business – Trademarks", on page 240 of this prospectus and "Business – Legal and Regulatory – Legal Proceedings", from pages 240 to 242 of this prospectus.

LISTING EXPENSES

We will incur listing expenses in connection with the Listing, which include professional fees, underwriting commissions and other fees. Listing expenses to be borne by our Bank are estimated to be RMB244 million. Listing expenses of approximately RMB14 million had been incurred as of June 30, 2014. Listing expenses of approximately RMB230 million are expected to be incurred after June 30, 2014, of which RMB9 million is expected to be charged to our consolidated statement of profit or loss and other comprehensive income and RMB221 million is expected to be accounted for as a deduction from equity. The listing expenses above are the latest practicable estimate for reference only and the actual amount may differ from this estimate. Our Directors do not expect such expenses to have a material adverse impact on our results of operations for the year ending December 31, 2014.

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

"Application Form(s)"	**WHITE**, **YELLOW** and **GREEN** Application Form(s) or, where the context so requires, any of them
"Articles of Association"	the articles of association of our Bank, adopted by our 2013 annual general meeting held on May 30, 2014 and approved by the CBRC Liaoning Bureau on September 18, 2014, as amended, supplemented or otherwise modified from time to time, which will become effective upon the Listing Date
"ATM"	automated teller machine
"Bank", "Company" or "We"	Shengjing Bank Co., Ltd. (盛京銀行股份有限公司), a joint stock limited company incorporated in the PRC on September 10, 1997 in accordance with PRC laws, and, if the context requires, includes its predecessors, subsidiaries, branches and sub-branches
"Banking Disclosure Rules"	the Banking (Disclosure) Rules, Chapter 155M of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Banking Ordinance"	the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Basel I"	the 1988 Basel Capital Accord
"Basel II"	the Revised Basel Capital Framework promulgated in June 2004
"Basel III"	the Basel Capital Accord promulgated in December 2010
"Basel Accords"	Basel I, Basel II and Basel III, collectively
"Basel Committee"	the Basel Committee on Banking Supervision

"Beijing Zhaotai"	Beijing Zhaotai Group Co., Ltd. (北京兆泰集團股份有限公司), a company incorporated in the PRC on November 16, 1992 and owned as to 41.60% and 38.50% by Mu Qiru (穆麒茹) and Beijing Zhaotai Holding Co., Ltd. (北京兆泰控股有限公司), which is in turn owned as to 70% by Mu Qiru, with the remaining share capital held by a group of 8 individuals who are independent from our Bank. It is a shareholder and an independent third party of our Bank
"Board" or "Board of Directors"	the board of Directors of our Bank
"Bohai Economic Rim"	the economic hinterland surrounding Beijing and Tianjin, including areas in Hebei, Liaoning and Shandong, which surrounds the Bohai Sea
"building ownership certificates"	building ownership certificates in the PRC (中華人民共和國房屋所有權證)
"CAGR"	compound annual growth rate
"Capital Adequacy Measures"	the Measures on the Administration of Capital Adequacy Ratios of Commercial Banks (商業銀行資本充足率管理辦法) promulgated by the CBRC on February 23, 2004, effective as of March 1, 2004 and amended on July 3, 2007, which was abolished by the Capital Administrative Measures on January 1, 2013
"Capital Administrative Measures"	the Administrative Measures for the Capital of Commercial Banks (for Trial Implementation) (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
"CBRC"	China Banking Regulatory Commission (中國銀行業監督管理委員會)
"CBRC Liaoning Bureau"	China Banking Regulatory Commission Liaoning Bureau (中國銀行業監督管理委員會遼寧監管局)
"CCASS"	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, joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant or a CCASS Custodian Participant or a CCASS Investor Participant
"China" or "PRC"	the People's Republic of China, but for the purpose of this prospectus only and except where the context requires, references in this prospectus to "China" and the "PRC" do not include Hong Kong, Macau or Taiwan
"CIETAC"	China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會)
"CIRC"	China Insurance Regulatory Commission (中國保險監督管理委員會)
"city commercial banks"	banks that are approved by the CBRC to be incorporated under the PRC Company Law and the PRC Commercial Banking Law with branches set up at the municipal level or above
"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 PRC Ministry of Industry and Information Technology, the NBSC, the NDRC and the MOF on June 18, 2011
"commercial banks"	all the banking institutions in the PRC other than policy banks, including 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
"controlling shareholder(s)"	has the meaning ascribed to it under the Listing Rules. Our Bank has no controlling shareholder
"Core Indicators (Provisional)"	the Core Indicators for Risk Supervision of Commercial Banks (Provisional) (商業銀行風險監管核心指標(試行)), as promulgated by the CBRC on December 31, 2005 and effective on January 1, 2006, 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)
"currently listed PRC city commercial banks"	city commercial banks which were incorporated in the PRC and whose shares are listed on any stock exchange in China or overseas as of the date of this prospectus, including Bank of Beijing Co., Ltd., Bank of Ningbo Bank Co., Ltd., Bank of Nanjing Co., Ltd., Bank of Chongqing Co., Ltd., Huishang Bank Corporation Limited, and Harbin Bank Co., Ltd.
"Development Plan of Liaoning Coastal Economic Zone"	the development plan for Liaoning Coastal Economic Zone approved in principle by the State Council in July 2009
"Director(s)"	director(s) of our Bank
"Domestic Shares"	ordinary shares issued by our Bank, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in full in Renminbi
"forfeiting"	a financial transaction involving the purchase of bills from exporters without recourse

"Founder Securities"	Founder Securities Co., Ltd. (方正證券股份有限公司), a company incorporated in the PRC on October 26, 1994, whose shares are listed on the Shanghai Stock Exchange (stock code: 601901), a shareholder and an independent third party of our Bank
"GDP"	gross domestic product
"GFA"	gross floor area
"Global Offering"	the Hong Kong Public Offering and the International Offering
"Green Application Form(s)"	application form(s) to be completed by the **White Form eIPO** Service Provider, Computershare Hong Kong Investor Services Limited
"H Share Registrar"	Computershare Hong Kong Investor Services Limited
"H Shares"	overseas-listed shares in the share capital of our Bank, with a nominal value of RMB1.00 each, which are to be subscribed for and traded in Hong Kong dollars and for which an application has been made for listing and permission to trade on the Hong Kong Stock Exchange
"HKD" or "HK$" 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"	Hong Kong Monetary Authority
"HKSCC"	Hong Kong Securities Clearing Company 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"	the H Shares offered pursuant to the Hong Kong Public Offering, subject to adjustment as described in the section entitled "Structure of the Global Offering" of this prospectus
"Hong Kong Public Offering"	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hong Kong Underwriters"	the underwriters of the Hong Kong Public Offering listed in the section entitled "Underwriting – Hong Kong Underwriters" of this prospectus
"Hong Kong Underwriting Agreement"	the underwriting agreement dated December 12, 2014 relating to the Hong Kong Public Offering entered into among us, the Joint Global Coordinators and the Hong Kong Underwriters
"Huibao International"	Liaoning Huibao International Investment Group Co., Ltd. (遼寧匯寶國際投資集團有限公司), a company incorporated in the PRC on June 2, 1998 and wholly-owned by Beijing Jiutai Group Co., Ltd. (北京九台集團有限公司), which is in turn owned as to 70% and 30% by Li Yuguo (李玉國), one of our non-executive Directors and Liao Jing (廖婧), respectively. It is a shareholder and a connected person of our Bank
"IFRS"	International Financial Reporting Standards, its amendments and the related interpretations issued by the International Accounting Standards Board
"independent third party(ies)"	a person who, as far as the Directors are aware after having made all reasonable enquiries, is not a connected person of our Bank within the meaning of the Listing Rules
"Interim Provisions on the Standards for Medium and Small Enterprises"	the Interim Provisions on the Standards for Medium and Small Enterprises (中小企業標準暫行規定) jointly promulgated by the State Economic and Trade Commission (國家經濟貿易委員會), the State Development Planning Commission (國家發展計劃委員會), the MOF and the NBSC in 2003, which was replaced by the Classification Standards of Small and Medium Enterprises on June 18, 2011

"International Offer Shares"	the H Shares offered pursuant to the International Offering together, where relevant, with any H Shares that may be issued pursuant to any exercise of the Over-Allotment Option, subject to adjustment as described in the section entitled "Structure of the Global Offering" of this prospectus
"International Offering"	the conditional placement by the International Underwriters of the International Offer Shares, as further described in the section entitled "Structure of the Global Offering" of this prospectus
"International Underwriters"	the group of underwriters who are expected to enter into the International Underwriting Agreement to underwrite the International Offering
"International Underwriting Agreement"	the underwriting agreement relating to the International Offering, which is expected to be entered into among our Bank, the Selling Shareholders, the Joint Global Coordinators and the International Underwriters, as further described in the section entitled "Structure of the Global Offering – The International Offering" of this prospectus
"Joint Bookrunners"	China Merchants Securities (HK) Co., Limited, UOB Kay Hian (Hong Kong) Limited, CCB International Capital Limited, Sheng Yuan Securities Limited and Haitong International Securities Company Limited
"Joint Global Coordinators"	China Merchants Securities (HK) Co., Limited and UOB Kay Hian (Hong Kong) Limited
"Joint Lead Managers"	China Merchants Securities (HK) Co., Limited, UOB Kay Hian (Hong Kong) Limited, CCB International Capital Limited, Sheng Yuan Securities Limited and Haitong International Securities Company Limited
"land use rights certificates"	land use rights certificates in the PRC (中華人民共和國國有土地使用證)

"Large Commercial Banks"	Agricultural Bank of China Limited, Bank of China Limited, Bank of Communications Co., Ltd., China Construction Bank Corporation, and Industrial and Commercial Bank of China Limited, and their respective predecessors, collectively
"Latest Practicable Date"	December 8, 2014, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
"Liaoning" or "Liaoning Province"	Liaoning Province of China
"Liaoning Coastal Economic Zone"	the region consisting of six coastal cities in Liaoning, including Dalian, Dandong, Jinzhou, Yingkou, Panjin and Huludao
"Liaoning's 12th Five-Year Plan"	The Guiding Principle of Liaoning's 12th Five-Year Plan for National Economic and Social Development (遼寧省國民經濟和社會發展第十二個五年規劃綱要)
"Listing"	the listing of our H Shares on the Hong Kong Stock Exchange
"Listing Committee"	the Listing Committee of the Hong Kong Stock Exchange
"Listing Date"	the date, expected to be Monday, December 29, 2014, on which dealings in the H Shares first 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), promulgated by the State Council Securities Commission and the State Restructuring Commission on August 27, 1994 and effective on the same date, as amended and supplemented or otherwise modified from time to time

"Master Plan for Pilot Reforms for the New Type Industrialization in Shenyang Economic Zone"	a plan relating to the new type industrialization reforms in Shenyang Economic Zone proposed by the NDRC in September 2011 pursuant to the Reply of the State Council on the Master Plan of Comprehensive Supporting Reform Experiment for New Type Industrialization in Shenyang Economic Zone (國務院關於瀋陽經濟區新型工業化綜合配套改革試驗總體方案的批覆)
"medium enterprises"	before June 18, 2011, the enterprises classified as medium enterprises under the Interim Provisions on the Standards for Medium and Small Enterprises; on and after June 18, 2011, the enterprises classified as medium enterprises under the Classification Standards of Small and Medium Enterprises
"micro enterprises"	the enterprises classified as micro enterprises under the Classification Standards of Small and Medium Enterprises
"MOF"	Ministry of Finance of the PRC (中華人民共和國財政部)
"NAO"	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., Hua Xia 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., Zheshang Bank Co., Ltd. and China Bohai Bank Co., Ltd.
"NBSC"	National Bureau of Statistics of the PRC (中華人民共和國國家統計局)
"NDRC"	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)

"non-performing loan(s)"	for the purpose of this prospectus, is used synonymously with "impaired loans and advances" in Note 39(1) in Appendix I – "Accountants' Report" to this prospectus. Under the five-category loan classification system we have adopted pursuant to applicable PRC guidelines, our non-performing loans are classified as substandard, doubtful or loss, as applicable
"non-performing loan ratio"	the percentage ratio calculated by dividing non-performing loans by total loans
"North China"	the five provinces and municipalities of Beijing, Tianjin, Hebei Province, Shanxi Province and Inner Mongolia Autonomous Region which are located in the north of China
"Northeast Asian Economic Zone"	the countries and regions of Northeast Asia, including China, Japan, Mongolia, South Korea, North Korea and Russia
"Northeast China"	the three provinces of Heilongjiang, Jilin and Liaoning which are located in the northeast of China
"NPC"	National People's Congress of the PRC (中華人民共和國全國人民代表大會)
"NSSF"	National Council for Social Security Fund of the PRC (全國社會保障基金理事會)
"Offer Price"	the final price per Offer Share in Hong Kong dollars (exclusive of the brokerage fee, SFC transaction levy and Hong Kong Stock Exchange trading fee) at which the Offer Shares are to be subscribed, to be determined in the manner further described in "Structure of the Global Offering" in this prospectus
"Offer Shares"	the Hong Kong Offer Shares and the International Offer Shares together, where relevant, with any additional H Shares to be issued pursuant to the exercise of the Over-Allotment Option

"Over-Allotment Option"	the option to be granted by us and the Selling Shareholders to the International Underwriters exercisable by the Joint Global Coordinators on behalf of the International Underwriters under the International Underwriting Agreement, pursuant to which the Joint Global Coordinators may require the Bank to issue and allot and the Selling Shareholders to sell additional H Shares representing in aggregate up to 15% of the initial number of Offer Shares, at the Offer Price, to cover over-allocations (if any) in the International Offering
"PBOC"	People's Bank of China (中國人民銀行)
"PBOC Shenyang Branch"	the Shenyang branch of the PBOC (中國人民銀行瀋陽分行), which assumes the function of a central bank within its jurisdiction
"Pearl River Delta Economic Zone"	the triangle-shaped region in Guangdong Province consisting of Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Zhaoqing, Jiangmen, Zhongshan and Dongguan
"PRC Banking Supervision and Regulatory Law"	the Banking Supervision and Regulatory Law of the PRC (中華人民共和國銀行業監督管理法), as enacted by the 6th meeting of the 10th Standing Committee of the NPC on December 27, 2003, 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), as enacted by the 13th meeting of the 8th Standing Committee of the NPC on May 10, 1995, 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 amended and adopted by the 10th Standing Committee of the NPC on October 27, 2005 and effective on January 1, 2006, as amended, supplemented or otherwise modified from time to time

"PRC GAAP"	the PRC Accounting Standards and Accounting Regulations for Business Enterprises (企業會計準則) promulgated by the MOF on February 15, 2006 and its supplementary regulations, as amended, supplemented or otherwise modified from time to time
"PRC PBOC Law"	the Law of the People's Bank of China of the PRC (中華人民共和國中國人民銀行法), as enacted by the 3rd meeting of the 8th Standing Committee of the NPC on March 18, 1995, effective on the same date, as amended, supplemented or otherwise modified from time to time
"PRC Securities Law"	the Securities Law of the PRC (中華人民共和國證券法), as enacted by the 6th meeting of the 9th Standing Committee of the NPC on December 29, 1998 and became effective on July 1, 1999, as amended, supplemented or otherwise modified from time to time
"Price Determination Date"	the date, expected to be on or around Friday, December 19, 2014, but no later than Wednesday, December 24, 2014, on which the Offer Price is fixed for the purposes of the Global Offering
"QIBs"	qualified institutional buyers as defined in Rule 144A
"qualified domestic institutional investors"	qualified domestic institutional investors in the PRC, which are licensed by the CSRC to invest in foreign securities markets
"Regulation S"	Regulation S under the US Securities Act
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"Rule 144A"	Rule 144A under the US Securities Act
"SAFE"	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SAIC"	State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)

"Sale Shares"	the 125,000,000 H Shares and, where relevant, any additional H Shares which may be sold by the Selling Shareholders pursuant to the exercise of the Over-Allotment Option. See "Share Capital – Transfer and Sale of State-owned Shares". The Selling Shareholders will convert an equal number of Domestic Shares held by them to be offered for sale as the Sale Shares, subject to any adjustments as provided in "Structure of the Global Offering". References to "Sale Shares" include, where the context requires, the Domestic Shares from which the Sale Shares are converted
"SASAC"	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
"SAT"	State Administration of Taxation of the PRC (中華人民共和國國家税務總局)
"Securities and Futures Commission" or "SFC"	the Securities and Futures Commission of Hong Kong
"Securities and Futures (Price Stabilizing) Rules"	the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong), as amended from time to time
"Selling Shareholders"	the state-owned shareholders, collectively, who are required to reduce their shareholding pursuant to the relevant PRC regulations relating to disposal of state-owned shares, as further described in "Information about this Prospectus and the Global Offering – Selling Shareholders" of this prospectus
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
"Shares"	ordinary shares in the share capital of our Bank with a nominal value of RMB1.00 each
"Shenyang" or "Shenyang Municipality"	the Shenyang Municipality in Liaoning Province which is located in Northeast China and the capital of Liaoning Province

"Shenyang City Construction"	Shenyang City Infrastructure Construction Investment Development Co., Ltd. (瀋陽市城市基礎設施建設投資發展有限公司), a company incorporated in the PRC on December 18, 1998 and wholly owned by Shenyang Municipal People's Government, an independent third party of our Bank
"Shenyang Economic Zone"	a region in Liaoning Province consisting of Shenyang, Anshan, Fushun, Benxi, Yingkou, Fuxin, Liaoyang and Tieling
"Shenyang Hengxin"	Shenyang Hengxin State-owned Assets Management Group Co., Ltd. (瀋陽恒信國有資產經營集團有限公司, formerly known as 瀋陽恒信國有資產經營有限公司), a company incorporated in the PRC on April 10, 2002 and wholly owned by Shenyang Industrial Investment Development Group Co., Ltd. (瀋陽產業投資發展集團有限公司), which was in turn wholly owned by Shenyang SASAC and was the single largest shareholder of our Bank as of the Latest Practicable Date; since its shareholding in our total issued share capital immediately after the Global Offering will be less than 10%, Shenyang Hengxin will cease to be our substantial shareholder upon Listing and be an independent third party of our Bank
"Shenyang SASAC"	State-owned Assets Supervision and Administration Commission of Shenyang Municipality People's Government (瀋陽市人民政府國有資產監督管理委員會)
"SHIBOR"	Shanghai Inter-bank Offered Rate, a daily reference rate published by the National Inter-bank Funding Center
"small enterprises"	before June 18, 2011, the enterprises classified as small enterprises under the Interim Provisions on the Standards for Medium and Small Enterprises; on and after June 18, 2011, the enterprises classified as small enterprises under the Classification Standards of Small and Medium Enterprises

"SMEs"	before June 18, 2011, the enterprises classified as small enterprises and medium enterprises under the Interim Provisions on the Standards for Medium and Small Enterprises; on and after June 18, 2011, the enterprises classified as micro enterprises, small enterprises and medium enterprises under the Classification Standards of Small and Medium Enterprises
"Sole Sponsor"	China Merchants Securities (HK) Co., Limited
"Special Program of the Reform for Optimizing Financial Ecology in the Pilot Area of Shenyang Economic Zone"	a program relating to the financial reform in the Pilot Area of Shenyang Economic Area approved by the State Council in September 2013
"Special Regulations"	The Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定), which were promulgated by the State Council on August 4, 1994, as amended, supplemented or otherwise modified from time to time
"Stabilizing Manager"	China Merchants Securities (HK) Co., Limited
"State Council"	State Council of the PRC (中華人民共和國國務院)
"Strategy of Revitalization of the Old Industrial Bases in Northeast China"	the policy introduced by the State Council in 2003 to promote the economic development of Northeast China
"Supervisor(s)" or "Board of Supervisors"	supervisor(s) or the board of supervisors of our Bank, respectively
"Takeovers Code"	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC as amended, supplemented or otherwise modified from time to time
"Track Record Period"	the period comprising the three years ended December 31, 2013 and the six months ended June 30, 2014
"Trademark Review and Adjudication Board"	the Trademark Review and Adjudication Board under the SAIC

"Underwriters"	the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
"United States," "US" or "U.S."	the United States of America, its territories and possessions, any state of the United States, and the District of Columbia
"US$," "USD" or "US dollars"	United States dollars, the lawful currency of the United States
"US Securities Act"	the US Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
"White Form eIPO"	the application for Hong Kong Offer Shares to be lodged in the applicant's own name by submitting applications online through the designated website at **www.eipo.com.hk**
"White Form eIPO Service Provider"	Computershare Hong Kong Investor Services Limited
"Wind Information Financial Terminal"	an analysis tool, developed by Wind Information Co., Ltd, which provides data and information on the Chinese financial market, covering stocks, bonds, funds, indices, warrants, commodity futures, foreign exchanges, and macro industry
"Xinhu Zhongbao"	Xinhu Zhongbao Co., Ltd. (新湖中寶股份有限公司, formerly known as 中寶科控投資股份有限公司), a company incorporated in the PRC on February 23, 1992, whose shares are listed on the Shanghai Stock Exchange (stock code: 600208), a shareholder and an independent third party of our Bank
"Yangtze River Delta Economic Zone"	the triangle-shaped territory of Shanghai, southern Jiangsu Province and northern Zhejiang Province

"Zhongyou Tianbao"	Shenyang Zhongyou Tianbao (Group) Materials and Equipment Co., Ltd. (瀋陽中油天寶(集團)物資裝備有限公司), a company incorporated in the PRC on December 19, 2000, and owned as to 80%, 10% and 10% by Liu Xinfa (劉新發), one of our non-executive Directors, Liu Xinlin (劉新林) and Liu Xinchang (劉新昌), respectively. It is a shareholder and a connected person of our Bank

In this prospectus, references to:

- the "Bank," "our Bank," "Group," "we," "us," and "our" refer to Shengjing Bank Co., Ltd., and, except as the context otherwise requires, its subsidiaries;

- our "branch outlets" include our head office, branches, sub-branches and other establishments;

- before June 18, 2011, "medium enterprises," "small enterprises," and "SMEs" refer to the enterprises classified respectively under the Interim Provisions on the Standards for Medium and Small Enterprises (中小企業標準暫行規定) jointly promulgated by the State Economic and Trade Commission (國家經濟貿易委員會), the State Development Planning Commission (國家發展計劃委員會), the MOF and the NBSC in 2003; on and after June 18, 2011, "medium enterprises," "small enterprises," "micro enterprises" and "SMEs" refer to the enterprises classified respectively under the Classification Standards of Small and Medium Enterprises (中小企業劃型標準規定) jointly promulgated by the PRC Ministry of Industry and Information Technology, the NBSC, the NDRC and the MOF on June 18, 2011; "large enterprises" refer to the enterprises other than those classified as SMEs; "small and micro enterprises/businesses" refer to small enterprises and micro enterprises collectively;

- a "business day" refers to a day that is not Saturday, Sunday or a public holiday in Hong Kong; and

- the terms "associate", "close associate", "connected person", "connected transaction", "core connected person", "subsidiary" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

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

In this prospectus, the term "weighted average of the agreed return" means, as of a certain date, the weighted average of the agreed interest rates of such type of loans or the weighted average of the agreed returns on such type of investments (with the outstanding amount of each loan or investment as the applicable weighting).

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

Any discrepancies in any table between totals and sums of the amounts listed are due to rounding. The growth rates with respect to our business and financial data presented in this prospectus are calculated based on amounts in millions of Renminbi.

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies and our measures and initiatives to implement these strategies;
- our dividend policy;
- any capital expenditure plans;
- our business, operations and prospects, including development plans for our existing and new businesses, products and services;
- trends in financial performance, profitability, interest rates, exchange rates and asset quality; and
- the future development and competitive environment for the banking industry in Shenyang, Liaoning, Northeast China and the PRC.

The words "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "seek," "will," "would" and other similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of various factors, including, without limitation, the matters set forth under the section entitled "Risk Factors" of this prospectus and the following:

- any changes in laws, rules, regulations or government policies;
- general economic, market and business conditions in Shenyang, Liaoning, Northeast China or the PRC;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices that may affect our operations and financial results;
- competition;
- changes in our strategies;
- our ability to identify, measure, monitor and control risks in our business, including our ability to improve our overall risk profile and risk management practices; and
- other factors beyond our control.

Subject to the requirements of the Listing Rules or 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 future events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set forth 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 our H Shares. Our business, financial condition, results of operations and prospects could be materially and adversely affected by any of these risks. The trading price of our H Shares could significantly decrease due to any of these risks, and you may lose all or part of your investment. You should also pay particular attention to the fact that we are a PRC company and are governed by a legal and regulatory system which may differ from those prevailing in other countries. For more information concerning the PRC legal and regulatory system and certain related matters discussed below, see the sections entitled "Supervision and Regulation", Appendix IV – "Summary of Principal Legal and Regulatory Provisions" and Appendix V – "Summary of Articles of Association".

RISKS RELATING TO OUR LOAN PORTFOLIO

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

As of December 31, 2011, 2012 and 2013 and June 30, 2014, our non-performing loan ratio, which is our loans classified as substandard, doubtful and loss, as a percentage of our total loans to customers, was 0.63%, 0.54%, 0.46% and 0.44%, respectively. Our financial condition and results of operations will be affected by our ability to maintain or improve the quality of our loan portfolio. Deterioration in the quality of our loan portfolio may occur due to various reasons. In particular, our strategy to expand loans to small and micro enterprises may adversely affect our overall asset quality, as those loans may have a higher non-performing loan ratio than loans to larger enterprises. We cannot assure you that we will be able to maintain or lower our current non-performing loan ratio in the future.

Moreover, the actual or perceived deterioration in the creditworthiness of borrowers, such as reduced profitability or cash flow of corporate borrowers or the unemployment of individual borrowers, may cause our asset quality to deteriorate and may lead to significant increases in allowance for impairment losses on loans. If our non-performing loans or allowance for impairment losses on loans increase in the future, our profitability may be materially and adversely affected.

Our historical non-performing loan ratios may not fully reflect the actual changes of our asset quality due to government-sponsored disposals and write-off of non-performing loans in the past that were not in the ordinary course of our business. In addition, we cannot guarantee that the government will continue to help us dispose of and write off our non-performing assets. For instance, although we sold our non-performing loans in an aggregate principal of RMB2 billion to Shenyang City Construction in 2004 with the help of the government of Shenyang City, and offered loans to Shenyang City Construction to help it acquire the non-performing asset, we still had other receivables of RMB756 million outstanding as of the Latest Practicable Date owed by Shenyang City Construction and made a provision of RMB62 million for such other receivables. If Shenyang City Construction does not repay the outstanding balance of the aforesaid receivables in full, Shenyang Hengxin has agreed to use the proceeds from disposal of a portion of the Shares held by it to repay such receivables within two years from the Listing Date and irrevocably undertaken to the Bank to continue to perform relevant obligations. Please see "Our History and Operational Reform – Disposal and Write-Off of Non-Performing Assets". However, we cannot guarantee that we will not increase our allowance for impairment loss on such other receivables in the future, which may reduce our profits, and have a material adverse effect on the quality of our assets, our financial condition and results of operations.

Our allowance for impairment losses on loans may not be sufficient to cover the actual losses on our loan portfolio in the future.

As of December 31, 2011, 2012 and 2013 and June 30, 2014, our allowance for impairment losses on loans was RMB1,610 million, RMB1,860 million, RMB1,879 million and RMB2,222 million, respectively. Our provision coverage ratio, which is the balance of our allowance for impairment losses as a percentage of balance of non-performing loans, was 260.94%, 302.44%, 306.53% and 343.96%, respectively. The increase in our allowance for impairment losses on loans and provision coverage ratio is mainly due to the growth and the increased diversity in our loan portfolio. For more details, please see "Description of Our Assets and Liabilities – Assets – Allowance for Impairment Losses on Loans to Customers".

We make allowance for impairment losses on loans in accordance with the loan classification requirement of the regulatory authorities and the principle of making allowance for impairment losses. The amount of our allowance for impairment losses on loans is determined in accordance with various factors that affect the quality of our loan portfolio, including, among other things, the financial condition, repayment ability and repayment intention of the borrowers, the realizable value of any collateral, the ability of guarantors to fulfill their obligations, China's economy, macroeconomic and industrial policies, interest rates, exchange rates, legal and regulatory environments and accounting principles. Many of these factors are beyond our control, and our assessment and estimation of these factors may differ from their actual developments in the future. The occurrence of or changes in any of the foregoing factors may result in our allowance for impairment losses becoming insufficient to cover our actual losses and we may need to increase our allowance for impairment losses accordingly, which would decrease our profit, and our asset quality, results of operations and financial condition may be materially and adversely affected.

The collateral, pledges or guarantees securing our loans may not be sufficient or fully realizable.

A majority of our loans are secured by collateral, pledges or guarantees. As of June 30, 2014, 51.0%, 7.2%, and 29.4% of our loans to customers were secured by collateral, pledges and guarantees, respectively. The collateral and pledges securing our loans to customers primarily comprise real properties, lands, stocks, certificates of deposits and other assets. The value of the collateral and pledges securing our loans may significantly fluctuate and decline due to various factors beyond our control, including macroeconomic factors affecting China. In particular, a slowdown in the PRC economy may lead to a downturn in the real estate market, which may in turn result in declines in the value of the real properties securing our loans to a level below the outstanding principal and interest of such loans. Moreover, the growth of the real estate industry and price of real properties in the PRC are significantly influenced by macroeconomic policies of the government, such as interest rate and credit policies. In addition, we cannot assure you that our assessment of the values of collateral and pledges will be accurate or current. If our collateral and pledges are proven to be insufficient to cover the related loans, we may require the borrowers to provide additional collateral and pledges. However, there is no assurance that we will be able to obtain such additional collateral and pledges. Declines in value of our collateral and pledges or our inability to obtain additional collateral and pledges may result in additional allowances for impairment losses on loans, which may materially and adversely affect our asset quality, financial condition and results of operations.

The procedures for liquidating or otherwise realizing the value of collateral and pledges may be protracted in the PRC, and it may be difficult to enforce claims in respect of such collateral. As a result, it may be difficult and time-consuming for us to take control of or liquidate the collateral and pledges securing non-performing loans. Particularly, a court may not evict a borrower or his or her dependents from his or her mortgaged residence during the six-month grace period after the court approves settlement of a loan against such property. In addition, under certain circumstances, other rights and claims may have priority over our rights to the collateral and pledges securing our loans. In addition, under certain circumstances, our security interest in the collateral may be subordinated to rights of certain other parties, such as the statutory priority granted in bankruptcy to employees regarding outstanding salaries owed prior to the PRC Enterprise Bankruptcy Law were promulgated on August 27, 2006, certain social security payments and other compensation payable as required by laws and regulations.

In addition, some of our loans were secured by the guarantees provided by the borrowers' affiliates or other third parties. Deterioration of the guarantors' financial conditions may have a material adverse effect on the credit quality of such loans. Furthermore, we are subject to the risks arising from the courts or other judicial or government authorities declaring certain guarantees invalid or refusing or failing to enforce out the same due to other reasons.

If we are unable to realize or fully realize the full value of the collateral and pledges securing our loans in a timely manner or at all, our asset quality, financial condition and results of operations may be materially and adversely affected.

As of June 30, 2014, unsecured loans accounted for 12.4% of our total loans to customers. We grant unsecured loans primarily based on the credit evaluation of the borrowers. We cannot assure you that our credit evaluation of the borrowers are accurate now or in the future and that these borrowers will repay in full when due. As we only have recourse against properties of unsecured loan borrowers and such right does not have any priority, we may have the risk of failing to collect such loans, which may in turn materially and adversely affect our business, financial condition and results of operations.

We are subject to risks in concentrating our loan business in certain industries and to certain borrowers. Any significant or protracted downturn in any of these industries or any deterioration in the financial condition or results of operations of our customers and borrowers in relevant industries could materially and adversely affect our business, financial condition, results of operations and prospects.

As of June 30, 2014, loans to the (i) wholesale and retail, (ii) manufacturing, (iii) real estate, and (iv) leasing and commercial service industries represented 20.2%, 20.0%, 19.4% and 12.8%, respectively, of our total outstanding corporate loans. A significant or protracted downturn in any of the industries in which we have a concentration of loans may negatively affect our loans to borrowers in those industries, which may in turn cause our non-performing loans to increase, and thus may materially and adversely affect our asset quality, financial condition and results of operations.

As of June 30, 2014, the balance of our loans to the ten largest single borrowers was RMB14,611 million, representing 9.89% of our entire loan portfolio. As of the same date, our loans to the largest single borrower represented 1.12% of our entire loan portfolio. As of June 30, 2014, our credit amount extended to the ten largest group borrowers was RMB21,698 million, representing 73.42% of our net regulatory capital. As of the same date, our credit amount extended to the largest group borrower represents 8.93% of our net regulatory capital. As of the same date, our loans to the ten largest single borrowers and ten largest group borrowers were classified as pass. If the credit quality of our loans to our ten largest single borrowers or ten group borrowers deteriorates or becomes non-performing, our asset quality, financial condition, results of operations and prospects may be materially and adversely affected.

Loans to small and micro enterprises expose us to risks.

As of December 31, 2011, 2012 and 2013 and June 30, 2014, our loans to small and micro enterprises represented 41.7%, 27.9%, 28.6% and 29.3%, respectively, of our outstanding balances of loans to corporate customers. As of the same dates, the non-performing loan ratio of these loans was 1.43%, 1.14%, 1.24% and 1.35%, respectively. Small and micro enterprises could experience cash-flow shortfalls and difficulties in funding their business operations in an environment of prudent monetary policy and slower economic growth, which may result in their default in loan repayment. We have adopted specific measures to control the non-performing loan ratio for our loans to small and micro enterprise customers. Please see "Risk Management – Credit Risk Management – Credit Risk Management for Corporate Banking". However, we cannot assure you that the non-performing loan ratio for these loans will not rise in the future, which could have a material adverse effect on our financial condition, results of operations and prospects.

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, financial condition and results of operations.

We are exposed to real estate market-related risks, especially through corporate loans to the real estate industry, personal residential mortgage loans and other loans secured by real estate. As of December 31, 2011, 2012 and 2013 and June 30, 2014, our corporate loans in the real estate sector accounted for 21.2%, 20.7%, 19.5% and 19.4%, respectively, of the balance of our total outstanding corporate loans. As of December 31, 2011, 2012 and 2013 and June 30, 2014, our personal residential mortgage loans accounted for 90.6%, 85.8%, 75.7% and 68.9%, respectively, of our total outstanding personal loans. The PRC government has imposed and may continue to implement macroeconomic policies to regulate the real estate market. See "Supervision and Regulation – Regulation of Principal Commercial Banking Activities" for further details on these measures. These measures may slow down the growth of our loans to, and negatively affect the financial condition, liquidity and repayment capabilities of, our customers in the real estate sector. These measures may also reduce the demand for 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 sector and personal residential mortgage loans. If the real estate market in the PRC experiences a significant downturn, the value of the collateral securing our loans may decrease, which could result in a reduction in the amount we could recover on any defaulting loans secured by real estate properties. We have taken measures to control the risks in the real estate sector. See "Risk Management – Credit Risk Management – Credit Risk Management for Corporate Banking – Portfolio Management and Credit Guidelines – Credit Risk Management for Loans to Real Estate Developers" for details on these measures. We cannot assure you that any measures we take will be effective or sufficient to protect us against the effects of any downturn in the PRC real estate market. As a result, 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 prospects, asset quality, financial condition and results of operations.

Deterioration in debt repayment capabilities of, or adverse change in national policies affecting, local government financing vehicles could materially and adversely affect our asset quality, financial condition and results of operations.

According to the CBRC, local government financing vehicles refer to three types of legal entities (government entities, public institutions and business enterprises) that are funded and established by, and whose repayment obligations are jointly and severally borne by, local governments. These vehicles primarily engage in financing activities wholly or partially supported by direct or indirect repayment commitments or guarantees from local governments, and provide support to finance various infrastructure development and transportation investment projects. We make loans to local government financing vehicles which belong to the prefecture level or above government bodies, and are secured primarily by collateral. As of December 31, 2011, 2012 and 2013 and June 30, 2014, the total outstanding balance of loans to local government financing vehicles amounted to RMB8,005 million, RMB7,719 million, RMB7,631 million and RMB7,417 million, respectively, accounting for 8.35%, 6.95%, 5.89% and 5.18%, respectively, of our total outstanding corporate loans.

Since 2010, the State Council, the CBRC and the PBOC, along with several other PRC regulatory authorities, have promulgated a series of notices, guidelines and other regulatory measures that guide PRC banks and other financial institutions to strengthen their risk management measures regarding loans to local government financing vehicles. Please see

"Supervision and Regulation – Regulation of Principal Commercial Banking Activities – Lending". We have adopted measures to control our risk exposure to local government financing vehicles. Please see "Risk Management – Credit Risk Management – Credit Risk Management for Corporate Banking – Portfolio Management and Credit Guidelines – Credit Risk Management for Loans to Local Government Financing Vehicles". However, we cannot assure you that any measures we take will be effective or sufficient to protect us against any default by local government financing vehicles. Unfavorable developments in macroeconomic conditions and changes in government policies, deterioration in the financial condition of local governments, a significant decline of property prices or other factors beyond our control may adversely affect the debt repayment capabilities of local government financing vehicles, which may in turn significantly increase our impairment losses on loans and materially and adversely affect our asset quality, financial condition or results of operations.

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

Our loans to customers (after deducting allowances for impairment losses on loans) have grown by 50.4% from RMB96,762 million as of December 31, 2011 to RMB145,523 million as of June 30, 2014. The growth in our loan portfolio during the period was primarily attributable to our efforts to expand corporate banking business. Growth of our loan portfolio may be influenced by the PRC economy as well as other macroeconomic factors, such as growth in GDP, the rate of inflation, changes in interest rate and changes in laws, rules or regulations governing banking and finance industries. Therefore, we cannot assure you that we will be able to maintain the growth of our loan portfolio.

In addition, we are subject to regulations that may limit the growth of our loan portfolio. For example, we are required to maintain a loan-to-deposit ratio not exceeding 75% and maintain the minimum capital adequacy ratio. The growth of our loan portfolio is also affected by our ability to increase customer deposits. Any of the foregoing factors could materially slow down the growth of our loan portfolio and have a material adverse effect on our business, financial condition, results of operations and prospects.

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

We classify our loans using a five-category classification system in accordance with the guidelines of the CBRC. The five categories are pass, special mention, sub-standard, doubtful and loss. The five-category classification may be different from those adopted by banks incorporated in other countries or regions. As a result, if our loan classification were applied to those banks, the risk level would be different from their risk profiles as they currently appear.

We assess our loans for impairment, determine a level of allowance for impairment losses on loans and recognize any related provisions made in a year in accordance with IFRS. See Note 2(23)(i) to our consolidated financial statements set forth in Appendix I – "Accountants' Report" to this prospectus. Loans, which are considered individually significant and those with unique credit characteristics are assessed individually for impairment losses. Loans which are assessed collectively for impairment include (i) individually assessed loans without any objective evidence of impairment and (ii) homogeneous groups of loans which are not considered individually significant and not assessed individually. See "Description of Our Assets and Liabilities – Assets – Allowance for Impairment Losses on Loans to Customers". Our provisioning policies may be different in certain aspects from banks in certain countries or regions. As a result, allowances for impairment losses determined based on our provisioning policies may differ from those that would be reported if we were incorporated in those countries or regions.

If the portion of our short-term loans continues to increase, the reliability and stability of our interest income may be adversely affected.

The portion of our short-term loans in our total outstanding loan balance has continued to increase. As of December 31, 2011, 2012 and 2013 and June 30, 2014, short-term corporate loans as a percentage of our total corporate loans to customers was 30.5%, 32.0%, 37.8% and 41.2%, respectively. During the Track Record Period, short-term loans constituted a large portion of our total loans and had been our stable source of interest income. Nonetheless, we cannot assure you that we will continue to have this stable source of interest income, in particular, when there is greater competition or funds of lower interest are available to customers. Our higher portion of short-term loans may have an adverse effect on the reliability and stability of our interest income.

RISKS RELATING TO OUR BUSINESS

We are subject to risks of having our business concentrated in Northeast China and the uncertainties relating to government policies to promote the development of Northeast China.

Our deposits, loan business and operations are mainly concentrated in Northeast China, especially in Liaoning Province. As of June 30, 2014, 80.2% of our total loans and 66.6% of our total deposits were attributable to customers in Northeast China. As approved by the regulatory departments, we have established branches in cities such as Beijing, Shanghai and Tianjin to further expand our business presence. Nevertheless, subject to regulatory policies, we may not be able to establish any new branches outside Northeast China in the future. For example, since 2011, the CBRC has temporarily suspended its approval of new applications from city commercial banks seeking to establish branches outside their respective residence provinces. We expect that our business operations will continue to concentrate in Northeast China in the future. If economic growth slows down, material adverse changes in the economic environment arise or any severe catastrophic events occur in Northeast China, our business, financial condition and results of operations could be materially and adversely affected.

We benefit from favorable policies adopted by the central and local governments to revitalize Northeast China. Since the State Council implemented the "Strategy of Revitalization of the Old Industrial Bases in Northeast China", a plan for industrial and economic revitalization in Northeast China, in 2003, the central and local governments have promulgated a series of policies and regulations to optimize the economic structure of Northeast China, support the development of SMEs, strengthen the infrastructure construction, strengthen the cooperation among provinces and promote regional economic integration. However, we cannot guarantee that the government will maintain its favorable policies in revitalizing Northeast China. Any discontinuation or unfavorable change in such policies may materially and adversely affect our business, financial condition and results of operations.

We cannot assure you that we will be successful in expanding our business lines as planned, and the expansion of the range of our products and services may also expose us to new risks.

In line with our growth strategy, we have devoted and will continue to devote significant resources to strategically expand certain of our business lines, such as our SME business, retail banking business and financing business. See "Business – Our Principal Businesses – Corporate Banking Business" and "Business – Our Principal Businesses – Retail Banking Business". Further expansion of our business activities is subject to a number of risks and challenges, including:

- insufficient experience or expertise in certain new products and services, which may prevent us from having any competitive edge in these areas;
- failure of our new products and services to be recognized by our customers or meet our expected profitability;
- similar products or services offered by other commercial banks that may erode our competitive advantage;
- possibility to increase revenues by investing more in corporate bonds, medium-term notes or short-term commercial paper which are of higher risk;
- insufficient financial, operational, management and other resources to support our expanded range of products and services;
- future policies or regulations of the PRC government that may limit our ability to provide new products or services;
- inability to obtain regulatory approvals for our new products or services; and
- failure to improve our risk management, internal control capabilities and information technology systems to support a broader range of products and services.

Any failure to expand or grow our business lines, products and services to achieve the intended results could have a material adverse effect on our business, financial condition, results of operations and prospects.

We cannot assure you that we will continue the geographical expansion of our business, and the expansion of our products and services and our geographical coverage may be subject to new risks.

Further development of our operations outside Liaoning Province must comply with the requirements of the PRC regulatory authorities and obtain their approvals. As of the Latest Practicable Date, the Bank has set up branches or sub-branches in 14 cities, including Shenyang, Beijing, Shanghai, Tianjin, Changchun and Dalian, accumulating experience in operations outside Liaoning Province. However, as compared to those state-owned commercial banks and national joint-stock banks, we are not in an advantageous position in terms of asset size, number of outlets and talents. Moreover, in regions into which we intend to expand our business, a commercial banking system has taken shape, as a result of which we may face intense competition in many respects, including customers, capital, service, technology and talents.

In addition, in our operations outside Liaoning Province, we face a number of other risks and challenges, including:

- The CBRC may continue to suspend its approval of new applications from city commercial banks seeking to establish branches outside their residence provinces, and as a result, we will not be able to establish new branches outside Liaoning Province other than in Beijing, Tianjin, Shanghai and Changchun;

- Our products and services may not meet the needs of local customers or may not be accepted by them, as a consequence of which we may not be able to achieve our targets;

- We may not be able to adapt to the local culture and operational practices rapidly or at all;

- We may not be able to recruit people who are familiar with the local economy, culture and customers, or recruit people on reasonable commercial terms or at all; and

- Our financial, operational, management and other resources may not be sufficient to support the expansion of our geographical coverage.

If our operations cannot penetrate into new regions as anticipated due to the aforesaid risks, our business, financial condition, results of operations and prospects could be materially and adversely affected.

If we are not effective in designing or implementing our risk management policies and procedures or using information technology systems to support our risk management, our business and prospects, as well as our financial condition and results of operations, could be materially and adversely affected.

Our operations face a variety of risks, including credit risk, market risk, liquidity risk and operational risk. Our risk management system is essential for maintaining our business operations and financial condition. We have formulated risk management measures in the principal business sectors in recent years. Please see "Risk Management – Risk Management Initiatives". However, we cannot assure you that our risk management policies and procedures will be adequate to control all credit, market, liquidity, operational and other risks, or protect us from impact of these risks. We may not be able to identify these risks or these risks may turn out to be greater than what we expected or those of historical levels. In addition, in order to manage the risks effectively, we will constantly update our risk management policies and procedures and may need additional time to implement these policies and procedures and generally assess the effectiveness of these policies and procedures. Our risk management also depends on effective execution by our employees. We cannot assure you that all our employees will comply with our risk management policies and procedures. Any violation of the above policies and procedures by our employees or any defect during the course of implementation of the same may adversely affect the implementation of our risk management policies and procedures.

Our risk management capabilities are limited by the information, tools or technologies available to us. In recent years, we have introduced or optimized certain risk management tools and systems, including a credit management system that incorporates internal credit rating, credit statistics monitoring and credit management monitoring functions, a risk management system, an off-site auditing system and a data submission system, to assist us in better managing our risks. These systems are designed to enhance our ability to use quantitative measures to manage our risks. However, our ability to operate such systems and to monitor and analyze the effectiveness of such systems is subject to continuous testing. Moreover, we are still in the process of further developing information systems for certain risks, and cannot assure you that these systems will achieve the expected effect.

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

Customer deposits are our primary source of funding. From December 31, 2011 to June 30, 2014, our total deposits from customers grew by 72.6% from RMB171,474 million to RMB295,934 million, with our corporate deposits growing by 70.7% from RMB123,665 million to RMB211,112 million and personal deposits growing by 77.4% from RMB47,809 million to RMB84,822 million. The growth in customer deposits may be affected by many factors, including macroeconomic conditions, availability of investment alternatives, such as wealth management products, and changing propensity of our retail banking customers toward savings, which are beyond our control. In addition, due to factors, such as the lack of alternative investment products in the PRC, the majority of our short-term deposits from customers, which have become due, continue to remain with us. However, we cannot assure you that such conditions will remain unchanged and we may be subject to liquidity risks thus arising from our increasing competition with banks, capital management companies and other financial institutions in respect of deposits from customers.

If we fail to maintain the growth rate of our customer deposits or if a substantial portion of our depositors withdraw their deposits or do not roll over their time deposits upon maturity, our liquidity, financial condition and results of operations could be materially and adversely affected. In such case, although we may obtain financing from the inter-bank bonds market, inter-bank lending and borrowing market and notes market to meet our liquidity needs, we cannot assure you that we will be able to obtain additional funding at commercially reasonable costs and on commercially reasonable terms as and when required.

We cannot assure you that various cost control strategies and measures will be continuously and effectively implemented in the future, and achieve expected effect.

As of December 31, 2011, 2012 and 2013 and June 30, 2014, the Bank's cost-to-income ratio was 23.97%, 20.80%, 19.00% and 21.17%, respectively. The relatively low-cost income ratio is mainly attributable to our effective cost control. However, we cannot assure you that these cost control measures will be continually and effectively implemented in the future. In addition, we may have to adjust the relevant cost control strategies and measures in accordance with the changing economic environment and business development. If these strategies and measures fail to achieve as expected in the future, our operating costs may rise, and our financial condition and results of operations may be materially and adversely affected.

We may face difficulties in meeting capital adequacy and other regulatory requirements in the future.

Pursuant to the Capital Administrative Measures promulgated by the CBRC, we are required to maintain a minimum core Tier 1 capital adequacy ratio of 5%, a minimum Tier 1 capital adequacy ratio of 6% and a minimum capital adequacy ratio of 8% since January 1, 2013, and pursuant to the Notice Regarding the Arrangement of Transition Period of Implementation of the Administrative Measures for the Capital of Commercial Banks (《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》) promulgated on November 30, 2012, we will gradually increase the above regulatory ratios and meet a minimum core Tier 1 capital adequacy ratio of 7.5%, a minimum Tier 1 capital adequacy ratio of 8.5% and a minimum capital adequacy ratio of 10.5% by December 31, 2018. As of June 30, 2014, our core Tier 1 capital adequacy ratio, Tier 1 capital adequacy ratio and capital adequacy ratio were 9.77%, 9.77% and 11.61%, respectively. Certain developments could adversely affect our ability to comply with applicable capital adequacy requirements in the future, including (i) a loss of ability to raise additional capital as a result of a deterioration in our asset quality, (ii) an increase in our risk-weighted assets as a result of the expansion of our business, (iii) an increase in the risk weightings for certain asset classes proposed and implemented by the CBRC from time to time or other changes that may be required by the

CBRC regarding the calculation of capital adequacy ratios of PRC commercial banks, (iv) an increase in the minimum capital adequacy requirements by the banking regulators, including as a result of Basel III, (v) a decline in the value of our available-for-sale financial assets, and (vi) a decrease in our net profit and retained earnings.

In addition, our ability to satisfy the existing capital regulatory requirements may be limited by numerous factors besides our financial condition, including (i) our future financial condition, results of operations and liquidity position, (ii) any government regulatory examination and approvals, (iii) our credit rating, (iv) general market conditions for capital raising activities, in particular, by commercial banks and other financial institutions, and (v) economic, political and other conditions in and outside the PRC. We cannot assure you that we will be able to continue to meet the capital adequacy requirements that the PRC regulators may impose from time to time. If we fail to meet the capital adequacy requirements, the CBRC may take corrective actions, including containing the growth of risk assets, restricting or prohibiting the expansion of branches and sub-branches, applying for new businesses and limiting distributions of dividends and other income. These actions could have a material adverse effect on our business, financial condition, results of operations and prospects.

Furthermore, we also need to meet other regulatory requirements such as loan-to-deposit ratio, liquidity ratio and other liquidity risk regulatory requirement indicators and monitoring reference indicators for liquidity risk such as the core liabilities ratio under 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)》) (CBRC Order [2014] No.2). As of December 31, 2011, 2012 and 2013, the Bank's core liabilities ratio was 68.37%, 60.02% and 60.71%, respectively, which meet the regulatory requirement. As of June 30, 2014, the Bank's core liabilities ratio was 53.32%, which did not meet the criteria (60% or above) as set out in the Core Indicators (Provisional). See "Supervision and Regulation – Other Operational and Risk Management Ratios". In addition, we also need to meet future regulatory requirements such as allowance to total loans ratio under the Administrative Measures for Loan Loss Allowance of Commercial Banks (《商業銀行貸款損失準備管理辦法》), under which our allowance to total loans ratio will be required to be at least 2.5%, beginning on December 31, 2016. As of December 31, 2011, 2012 and 2013 and June 30, 2014, our allowance to total loans ratio was 1.64%, 1.63%, 1.41% and 1.50%, respectively. The CBRC may conduct regulatory interview with or issue risk warning to us, or take appropriate corrective measures based on the circumstances of actual non-compliance along with the information gathered through its routine supervision if we do not comply with the relevant regulatory requirements, which could have an adverse effect on our business, financial condition, results of operations and prospects.

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

Fraud and other misconduct by our employees or third parties may be difficult to detect or prevent and could subject us to financial losses and sanctions imposed by regulatory authorities as well as seriously damage our reputation. Possible misconduct by our employees includes but is not limited to improper extension of credit, unauthorized business transactions, conduct of business operations in breach of our internal policies and procedures, inappropriate accounting treatment, theft, embezzlement or misappropriation of customer funds and fraud. See "Business – Legal and Regulatory". Possible misconduct by third parties against us includes but is not limited to fraud, theft and robbery. Although we have taken proper measures to prevent fraud and other misconduct by our employees and third parties, we cannot assure you that all our employees will fully comply with our risk management policies and procedures, or that we can always identify and prevent all fraud and other misconduct by our employees and third parties. Future fraud or other misconduct by our employees and third parties could damage our reputation and have a material adverse effect on our business, financial condition, results of operations and prospects.

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

We depend on our information technology systems to process our transactions on an accurate and timely basis, and to store and process our business and operating data. The proper functioning of the product management system, distribution channel system, decision support system, as well as the communication networks between our branches and sub-branches and our main data processing centers, is critical to our business and competitiveness. To minimize the risks associated with disasters or system failures, we have established local and remote disaster recovery centers in Shenyang and Yingkou, respectively. However, we cannot guarantee you that such factors as system failures caused by natural disasters, continuous power or communication failures, system deficiencies and computer viruses will not cause major disruption to our business. In addition, any illegal access to the information or access to the system, any lost or ruined data as well as system intrusion caused by software, hardware and other information system equipment failures could have a material adverse effect on our financial condition and operating results.

In addition, our competitiveness will to some extent depend on our ability to upgrade our information technology systems in a timely and cost-effective manner. For example, the information available to us through our existing management information system may not be timely or sufficient for us to manage risks and prepare for, and respond to, market changes and other developments in our current operating environment. Any substantial failure to improve or upgrade our information technology systems effectively or on a timely basis could materially and adversely affect our competitiveness and risk management, as well as our business and development prospects.

We are subject to credit risk with respect to certain off-balance sheet commitments.

Our off-balance sheet credit commitments primarily include bank acceptances, letters of credit and letters of guarantee, which are not reflected on our balance sheet, but constitute contingent assets or contingent liabilities. As of December 31, 2011, 2012 and 2013 and June 30, 2014, our off-balance sheet commitments were RMB28,973 million, RMB41,905 million, RMB54,061 million and RMB70,229 million, respectively. Please see "Financial Information – Financial Position – Credit Commitments and Other Off-Balance Sheet Items". Although we require our customers to pay a deposit in respect of off-balance sheet business such as bank acceptances and letters of credit, and take security measures against exposure, such as collateral, pledges and guarantees, we cannot assure you that these measures can prevent customers and guarantors from breaching their commitments. If we cannot receive timely and full payment from our customers in respect of these commitments, we will have to make advances, and even after we have exercised our rights to collateral or pledges and repayment obligations of the customers and guarantors have been enforced, we may still face the risk of insufficient repayment, and our financial condition and results of operations could be materially and adversely affected.

We have used funds at our disposal to invest in trust beneficiary rights, and any adverse changes with respect to this type of investment may have a material adverse effect on our profitability and liquidity of assets.

In recent years, we have been using funds at our disposal to invest in trust beneficiary rights. As of December 31, 2011, 2012 and 2013, and June 30, 2014, the balance of our investment in trust beneficiary rights was RMB1,814 million, RMB15,135 million, RMB11,743 million and RMB13,850 million, representing 3.7%, 22.8%, 15.9% and 11.9% of our debt investments, respectively. For 2011, 2012 and 2013 and the six months ended June 30, 2014, the interest income from such investments amounted to RMB27 million, RMB989 million, RMB1,800 million and RMB606 million, respectively, representing 0.3%, 7.1%, 10.0% and 5.1% of our total interest income for the same period.

Trust beneficiary rights are financial instruments, the subject of which is the beneficiary rights of trust plans sponsored by trust companies. Please refer to the section entitled "Business – Our Principal Businesses – Treasury Business – Investments in Securities and Other Financial Assets – Investment in Debt Instruments Issued by Financial Institutions – Trust Beneficiary Rights". In order to control risks with respect to the trust beneficiary rights, we have taken a number of preventive measures. For more details, please see "Risk Management – Credit Risk Management – Credit Risk Management for Treasury Business – Credit Risk Management for Investment Business – Investment in Debt Instruments Issued by Financial Institutions". However, we cannot guarantee that the measures we take will enable us to identify all the potential risks lying with the borrowers and the projects to be funded in a timely manner. In addition, when the trust companies are unable to fully recover the principal of and the agreed returns on our investments from the borrowers, we would have to rely on them to take active measures and exercise their rights under the guarantees to reduce our losses, as we do not have direct recourse against the borrowers and guarantors.

As the terms of such investments are generally over one year and there is no active market for such investments, their liquidity is limited. In addition, although PRC regulatory authorities currently do not prohibit commercial banks from directly investing in trust beneficiary rights, we cannot assure you that future changes in regulatory policies will not prohibit us or our counterparties from making such investments. Any adverse development relating to these types of investments could cause a significant decline in the value of our investment portfolio and, as a result, materially and adversely affect our profitability and liquidity.

We are subject to risks in relation to wealth management products.

In recent years, growth of deposits in the PRC banking industry has begun to slow down and competition for deposits among commercial banks has become increasingly intense. In response to such competition, PRC commercial banks, including our Bank, have been increasing the scale of and the types of wealth management products they offer to customers. As of June 30, 2014, the balance of wealth management products under the brand name Red Rose issued to our corporate and individual customers amounted to RMB1,720 million, which accounted for 0.38% of our total assets as of the same date.

We have invested the proceeds from our wealth management products mainly in bonds that can be traded in the inter-bank market and placements with banks. As all the wealth management products offered by us are non-principal protected, we are not liable for any loss the investors may suffer from investing in such products. However, if the investors suffer losses in such wealth management products, our reputation may be seriously damaged and we may also suffer loss of business, customer deposits or net income. Furthermore, we may be required to bear the losses in such non-principal protected products if investors file lawsuits against us and the court rules that we have been misleading in selling such products.

In addition, the terms of wealth management products issued by us may be shorter than those of the assets in which we invest, which may put us at liquidity risk and force us to offer new wealth management products, dispose of the underlying assets or otherwise to fill the gap when the existing wealth management products are due. PRC regulatory authorities have enacted policies to limit the scale of the commercial banks' investments in non-standard debt-based assets with the funds raised from wealth management products. If the PRC regulatory authorities further restrict the wealth management business of the commercial banks, our business may be adversely affected.

Issues relating to land use right and building ownership may disrupt our ability to occupy and use certain properties we own and/or lease from third parties.

As of the Latest Practicable Date, we held 184 properties in the PRC, with a GFA of 343,971.32 square meters. For eight properties with an aggregate GFA of 33,711.42 square meters, we have only obtained either the building ownership certificates or the land use right certificates. For four properties with an aggregate GFA of 3,187.42 square meters, we have not obtained the building ownership certificates and the land use right certificates. For five properties with an aggregate GFA of 4,294.75 square meters, we have obtained both the building ownership certificates and the land use right certificates but the land upon which these properties were erected were allocated to us by the government. The properties for which we have not obtained the building ownership certificates and/or land use right certificates and/or have not completed the procedure relating to the grant of land use rights are mainly used for our business operations or as offices. We undertake to use our best efforts to complete relevant procedures for obtaining title certificates. In addition, the property developers of 18 newly purchased properties, as sellers, are obliged to assist us in obtaining the land use right certificates; and we have paid up land grant fee for and are in the process of completing the procedures for assignment of land use rights for 8 properties for which we have not received land use right certificates or for which we have received land use right certificates through allocation by governments. See “Business – Properties”. However, we cannot assure you that we will be able to receive all relevant land use right certificates for the above 26 properties. According to the opinion of our PRC legal advisor, Tian Yuan Law Firm, we may not transfer, mortgage or otherwise dispose of such properties until we obtain the relevant land use right certificates and/or building ownership certificates or go through the procedures of conversion of the land from allocated land to granted land. To acquire the title certificates to such properties, we have to bear relevant costs. Our failure to obtain the relevant valid title certificates to such properties may expose us to title disputes.

In addition, as of August 31, 2014, we leased 135 properties in the PRC, among which 14 were leased from lessors who were not able to provide supporting documents showing their right to lease the properties, including relevant title certificates or authorization papers (with a GFA of approximately 4,051.38 square meters, representing approximately 5.97% of the total GFA of our leased properties). If the lessors fail to possess the ownership of such properties or obtain relevant authorization documents in respect of the property ownership, our continuity in leasing such properties may be affected. See “Business – Properties” of this prospectus. We cannot assure you that such properties possibly with defective titles can be leased or occupied for a long term.

If ownership of the above properties faces disputes and/or the validity of such leases is challenged by third parties, we may be forced to relocate the affected outlets, thus resulting in additional costs.

We may not be able to detect money laundering and other illegal or improper activities fully or in a timely manner, or completely avoid the risks of violating the economic-sanction laws, which could expose us to additional liability and harm our business or reputation.

We are required to comply with applicable anti-money laundering and anti-terrorism laws and other regulations in the PRC. These laws and regulations require us to strictly enforce “know-your-customer” policies and incorporate criteria for identifying large and suspicious transactions into our anti-money laundering monitoring and reporting system. We are also required to timely report large and suspicious transactions to the PRC Anti-Money Laundering Monitoring and Analyzing Center. See the section entitled “Business – Legal and Regulatory”. Although we have adopted policies and procedures that are intended to detect and prevent the use of our banking networks in money laundering activities and by terrorists and terrorist-related organizations and individuals, those policies and procedures may not completely eliminate the risk that third parties may use our Bank to engage in money laundering and other illegal or improper activities. For details regarding our risk management for anti-money laundering, see the section entitled “Risk Management – Legal and Compliance Risk Management – Anti-Money Laundering Management”. If we fail to fully comply with applicable PRC laws and regulations, or if our customers use our Bank for money laundering or other illegal or improper purposes, we may be subject to fines and other penalties, and our business and reputation may be materially and adversely affected.

In addition, since we are engaged in international trade payment and settlement services, we are also governed by the relevant laws and regulations of the jurisdictions outside the PRC. For example, U.S. laws generally prohibit U.S. persons or persons subject to U.S. jurisdiction from conducting business in certain countries (such as the Republic of Cuba and the Islamic Republic of Iran) or entering into transactions with such countries or governments or certain persons or commercial entities specifically designated by U.S. government agencies. U.S. economic sanction laws may have extra-territorial effect in certain cases. Other countries also enforce similar economic sanction laws. While we have taken due care to comply with all applicable laws and regulations, and generally do not conduct business in the United States, we cannot completely avoid the risks associated with violation of the economic sanction laws since we provide our customers with payment and trade settlement services on a global scale. Although we do not think we have violated any applicable sanction, we may be subject to sanctions or other penalties if our participation in a transaction was held to be in violation of the relevant sanction laws, so that our reputation and business may be materially and adversely affected.

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

We are involved in legal and other disputes from time to time for a variety of reasons, which are generally the loan disputes or claims arising out of our banking business. The majority of these cases arise in the ordinary course of our business. See "Business – Legal and Regulatory Compliance – Legal Proceedings" of this prospectus. Where we assess and discover a risk of potential loss, we will make provisions for the loss according to our policies. See "Supervision and Regulation – Loan Classification, Allowances and Write-offs – Loan Loss Allowance". In addition, our view on provisions will change according to our risk assessment. We cannot guarantee that the outcome in any of the litigation in which we are involved would be favorable to us or that our litigation provisions are adequate to cover our losses arising from legal proceedings or other disputes. We may have to confront various legal, administrative or other disputes and proceedings in the future, which may result in damage to our reputation, additional operational costs and a diversion of resources and management's attention from our core business operations.

We rely on the continuing efforts of our key personnel and we may not be able to hire, train or retain a sufficient number of qualified staff.

We rely upon the continued service and performance of our key personnel, including our senior management team and other professional staff. Our future success depends substantially upon the industry experience, experience in our business operations and sales and marketing skills of our key personnel, as well as their working relationship with our employees, major shareholders, customers and regulatory authorities. The loss of members of our key personnel may have a material adverse effect on our business, financial condition, results of operations and prospects.

As most aspects of our business depend substantially on the quality of our professional staff, we devote considerable resources to recruiting and training our staff members. However, we face increasing competition from other banks and financial institutions for the same group of talent. Competition for these individuals may cause us to offer higher compensation and other benefits in order to attract and retain them, which could materially increase our operating expenses and decrease our operating profit. In addition, some of our employees are not subject to long-term employment contracts, and regardless of whether they are subject to any employment contracts with us, our employees may resign at any time and may seek to divert customer relationships that they have developed while working for us. We may be unable to attract or retain the personnel required to achieve our business objectives, and failure to do so could materially and adversely affect our business and prospects.

There may be potential disputes involving shareholders of the Bank, whose identities cannot be confirmed.

As of the Latest Practicable Date, we have been unable to verify the shareholding and/or unable to contact 33 corporate shareholders and 139 individual shareholders among the 3,469 total shareholders of our Bank to confirm their identities. The shares held by such shareholders represented approximately 0.12% of the total issued share capital of our Bank in aggregate as of the Latest Practicable Date.

Currently, matters concerning the Shares of the Bank are addressed by the office of the Board. We opened a dedicated share account for the administration of Shares with uncertain entitlements. The office of the Board will assign an officer to manage the share account. Dividends attributable to those Shares with uncertain entitlements will be kept in a special account created for this purpose and will be released upon the determination of entitlements of the shares. Transfer and pledge of Shares with uncertain entitlements are prohibited. We cannot guarantee that there will not be any disputes regarding equity interests raised by such shareholders, such as dispute over the dilution of their shareholding. Any of such disputes or objections may result in negative publicity and reputational damage to us.

We have not completed the trademark registration of our important logos in China. If we fail to register the trademark, our right to use the logo in business operations may be affected, and we may face infringement claims brought by third parties and may suffer losses as a result.

We use the logo 盛京銀行 SHENGJING BANK in our business operations. As of the Latest Practicable Date, we have not completed the trademark registration of the logo in China as it is involved in a pending administrative litigation. The administrative litigation was filed by an individual (the "Objector") against the Trademark Review and Adjudication Board, on the ground that the trademark the Bank applied for registration was for the use on the same or similar product of, and bore resemblance to, his registered trademark, and that the Bank's application constituted malicious preemptive registration and had infringed upon the preexisting right of the Objector. The Objector requested the court to revoke the ruling of the Trademark Review and Adjudication Board to approve our trademark registration. We are involved in the administrative litigation as a third party. On December 8, 2014, the Bank received the judgment rendered by Beijing No. 1 Intermediate People's Court, in which the Objector's claim was dismissed. Please see "Business – Trademarks" and "Business – Legal and Regulatory – Legal Proceedings".

If the court finally rules that the logo of the Bank is for the use on the same or similar product of, and bore resemblance to, the registered trademark of the Objector or that the Bank's application constituted malicious preemptive registration or had infringed upon the preexisting right of the Objector, and revokes the ruling of the Trademark Review and Adjudication Board to register our trademark, we will not be able to obtain the exclusive trademark use right for the logo, and our right to use the texts or image on the logo, including the right to continue using "Shengjing Bank" as our name and logo in business operations, may be affected. We may also face litigation brought by third parties for trademark infringement or otherwise for use of our logo in our business operations, which may have a material adverse effect on our business, financial condition, results of operations and prospects.

We may not be able to register our trademark in Hong Kong.

As of the Latest Practicable Date, we have lodged four trademark applications in Hong Kong for our trademarks set out in the paragraph headed "Statutory and General Information – 3. Further Information about Our Business – B. Intellectual Property Rights – (a) Trademarks" in Appendix VII to this prospectus. However, there is no assurance that such pending applications for trademark registration in Hong Kong will eventually be approved or that we would be granted exclusive rights to use these marks as registered trademarks in Hong Kong. If the trademarks could not be registered, or if the registration process is delayed, our trademarks may be infringed, and we may infringe upon the registered trademarks of third-parties for using texts and images of such trademarks; therefore, our business, financial condition, results of operations and prospects could be materially and adversely affected.

RISKS RELATING TO THE BANKING INDUSTRY IN THE PRC

Our results of operations may be affected by changes in interest rates and other market risks.

Our results of operations depend significantly on our net interest income. As of the year ended December 31, 2011, 2012 and 2013, and the six months ended June 30, 2014, our net interest income represented 98.7%, 98.2%, 88.1% and 88.2%, respectively, of our operating income. Our net interest income is sensitive to adjustments in the benchmark interest rates set by the PBOC. The PBOC publishes and adjusts benchmark interest rates on loans and deposits from time to time. For example, with effect from November 22, 2014, the PBOC lowered the benchmark interest rates on RMB-denominated loans and deposits. Moreover, prevailing PBOC regulations limit our ability to adjust our interest rates in response to changing market conditions. In particular, under current PBOC regulations, PRC commercial banks typically may not set interest rates for deposits above 120% of the PBOC benchmark rate for RMB-denominated deposits. On the other hand, the PBOC continues to liberalize the restrictions on interest rates for loans. For example, on July 20, 2013, the PBOC eliminated the minimum interest rate requirements for RMB-denominated loans. See "Supervision and Regulation – Pricing of Products and Services – Interest Rates for Loans and Deposits". The PBOC may further liberalize the existing interest rate restrictions in the future. If the existing regulations were substantially liberalized or eliminated, loan-deposit spreads in the PRC banking industry may further narrow due to market competition, which would materially reduce our net interest income. Furthermore, we cannot assure you that we will be able to adjust the composition of our asset and liability portfolios and our pricing mechanism to enable us to effectively offset the impact of interest rate liberalization.

In addition, adjustments made by the PBOC to the benchmark interest rates on loans or deposits, or any changes in market interest rates, may negatively impact our financial condition and results of operations. For example, changes in the PBOC benchmark interest rates could affect the average yield on our interest-earning assets and the average cost on our interest-bearing liabilities to different extents and may narrow our net interest margin, leading to a reduction in our net interest income. See "Financial Information – General Factors That Affect Our Results of Operations – Interest Rates" for a detailed analysis on effects of changes in the PBOC benchmark interest rates. In addition, an increase in interest rates for loans could result in increases in the financing costs of our customers, reduce overall demand for loans and increase the risk of customer default, while a reduction in interest rates for deposits could lead our depositors to withdraw their funds from our Bank.

We are also engaged in trading and investment activities involving some financial instruments in the domestic market. Income from these activities may fluctuate due to, among other things, changes in interest rates and foreign currency exchange rates. For example, increases in interest rates will cause the value of our fixed-rate securities to decrease, which may materially and adversely affect our results of operations and financial condition. In addition, as the derivatives market has yet to develop in the PRC, risk management tools available to us for hedging market risks are limited.

We face intense competition from other participants in the PRC banking industry, as well as competition from alternative investment and financing channels.

Currently, the competition in the banking industry of China is increasingly intense. We are facing fierce competition from the Large Commercial Banks, Nationwide Joint-stock Commercial Banks, the Postal Savings Bank of China, other city commercial banks, rural commercial banks and foreign banks. The Large Commercial Banks enjoy an advantageous position in the banking industry in China as well as a sizable volume of assets and customer bases. The Nationwide Joint-stock Commercial Banks have built up their competitive power with diversity and characteristics through deepening their strategic restructuring and transformation and focusing on innovation in products and services, resulting in increasing market shares. With the removal of restrictions regarding regions of operation and target customers, foreign banks have seen their business in China expanding at a steady pace. The above-mentioned competitors enjoy a significant advantage over the Bank in capital strength, volume of assets, market influence and financial technology.

In recent years, the Chinese government has adopted a series of measures to further unleash restrictions on the entire Chinese banking industry and financial market, resulting in increasing competition between banks and other financial institutions with a common customer base. In addition, payment and wealth management services provided by the internet finance companies also impose competitive pressure on our businesses.

The intense competition in the PRC banking industry may materially and adversely affect our financial condition and results of operations as well as our business and prospects in various ways, including by:

- diminishing the market share of our principal products and service lines;
- slowing the growth of, or even reducing, our loan and deposit portfolios;
- decreasing our interest income or increasing our interest expenses;
- reducing the amount we can charge in fees and commissions;
- increasing our non-interest expenses, such as marketing expenses;
- adversely affecting our asset quality; and
- increasing competition for management personnel and qualified professionals.

In addition, with the on-going development of China's capital market, we may also face competition from direct corporate financing, such as the issuance of securities in the domestic and international capital markets. In particular, the PRC securities markets have experienced, and are expected to continue to experience, expansion and growth. If a substantial number of our customers choose alternative financing instruments over bank loans to fund their capital needs, our interest income could decrease significantly, and our revenues and net profit could be materially reduced.

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

Our operations are directly affected by changes in the policies, laws, rules and regulations in the PRC relating to the banking industry, such as those affecting the extent to which we can engage in certain businesses, as well as by changes in other governmental policies. Such changes may result in restrictions on our business activities or additional costs to us. See "Supervision and Regulation – Regulation of Principal Commercial Banking Activities". Future laws, rules, regulations or policies, and changes in existing laws, rules, regulations or policies may have a material adverse effect on our business, financial condition, results of operations and prospects, including by restricting our business activities or increasing our costs of doing business. Furthermore, any uncertainty as to the interpretation and application of new rules and regulations may lead us to incur unanticipated operating or other costs. Failure to comply with applicable laws, rules, regulations and policies may result in fines and restrictions on our activities, which could also have a material adverse effect on our business, financial condition, results of operations and prospects.

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

The PRC banking industry has experienced rapid growth, consistent with the economic development of the PRC. We expect the banking industry in the PRC to further expand as a result of, among other things, the continued growth in the PRC economy, increases in household income, deregulation of interest rates, further liberalization of exchange restrictions on the Renminbi and further growth of the fee-end and commission-based business. However, we cannot assure you that the growth and development of the PRC banking industry will be sustainable. The global financial crisis and the European sovereign debt crisis resulted in a global economic downturn. According to data of the NBSC, the GDP of China grew at a rate of 7.7% and 7.4% in 2013 and in the first six months of 2014, respectively. It is uncertain whether the PRC economy and the banking industry can return to previous levels of growth. In addition, according to the data published by the CBRC, since the third quarter of 2013, the non-performing loan ratios of the PRC banking industry has been increasing for four consecutive quarters. We cannot assure you that the PRC banking industry will not be materially and adversely affected as a result of the increase of non-performing loan ratios. If the rate of growth of the PRC banking industry slows down, our business, financial condition and results of operations may be materially and adversely affected.

Change in the PRC inter-bank market liquidity and volatility in the interest rate could significantly increase our borrowing cost and materially and adversely affect our liquidity as well as our financial condition.

We utilize short-term funding in the inter-bank market to satisfy some of our liquidity needs, and change in the liquidity and interest rate in the PRC inter-bank market has a relatively big impact on our financing costs. A market rate system based on SHIBOR has been developed for the PRC inter-bank market. However, due to the relatively short history of the PRC inter-bank market, there may be significant volatility in market interest rates, such as dramatic fluctuations in the short-term inter-bank rate in June and July 2013. 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 change in the interest rates, which may materially affect our cost of borrowing short-term funds in the inter-bank market. Any significant volatility in the capital and interest rate of the inter-bank market may have a material and adverse effect on our cost of borrowing short-term funds and our liquidity.

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.

IFRS 9 and its amendments may require us to change our provisioning practice for impairment in financial assets.

We currently assess the impairment of our loans and investment assets under IAS 39. The determination of impairment requires our management to exercise significant judgment and discretion. See "Financial Information – Critical Accounting Estimates and Judgments". The International Accounting Standards Board, or IASB, which is responsible for developing and revising international accounting standards, issued IFRS 9 and its amendments in November 2009, October 2010 and July 2014, which will take effect on January 1, 2018 and replace the information related with classification, measurement and derecognising of financial assets and financial liabilities under IAS 39, and give rise to substantial changes in the classification and measurement of financial assets and financial liabilities. We may change our current provisioning practice in the future in accordance with IFRS 9 and its amendments, and any other future amendments to IAS 39 or similar standards, including any authoritative interpretive guidance on the application of such new or revised standards, which could in turn materially affect our business, financial condition and results of operations.

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

The completeness and reliability of information on customer credit risk is relatively limited in the PRC. Although the national individual and corporate credit information databases developed by the PBOC have been put into operation, and China UnionPay Co., Ltd. has also provided an individual credit blacklist, such national credit information systems can only provide limited information because of their short operational history. Moreover, the domestic information infrastructure is still at the development phase and is subject to further refinement. As a result, our assessment of the credit risk associated with a particular customer may not be based on complete, accurate or reliable information. Until these nationwide credit information databases or other information databases are fully developed, we have to rely on other publicly available resources and our internal resources, which could not be comparable to a comprehensive national credit information system in terms of the coverage and validity of information sources. Moreover, loan contracts in China may not contain the same types of financial and other covenants as other countries or regions, which would not allow our Bank to effectively monitor, detect on the credit standing of our customers in a timely and accurate way. In addition, the affiliated relationship among borrowers may be complicated and difficult to clarify in China, which will affect our ability to obtain accurate and complete information about our borrowers and to analyse the concentration of borrowers based on such information. Therefore, our ability to effectively manage credit risks could be materially and adversely affected.

The applicable PRC regulations impose certain limitations on the product categories in which we may invest and, as a result, our ability to seek higher investment returns, diversify our investment portfolio or hedge the risks relating to our RMB-denominated assets is limited.

As a result of current PRC regulatory restrictions, substantially all of our RMB-denominated investment assets are concentrated in a limited variety of investments permitted for PRC commercial banks, such as debt securities issued by the MOF, the PBOC, PRC policy banks and PRC commercial banks, commercial paper issued by qualified domestic institutions, directional asset management plans, medium-term notes, and domestic corporate bonds. As a result, the investment assets of PRC commercial banks have demonstrated a relatively high level of correlation such that diminution in the value of some assets is often accompanied by corresponding losses in the value of other assets. Restrictions on our ability to diversify our investment portfolio limit our ability to seek an optimal return. Moreover, our ability to hedge against the risks of RMB-denominated investment assets is limited due to restrictions under the applicable PRC laws on RMB-denominated hedging instruments.

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

Facts, forecasts and statistics in this prospectus relating to the PRC, its domestic economy and financial conditions or its banking industry, including our market share information, are derived from various public sources which are generally believed to be reliable. However, we cannot guarantee the quality and reliability of such sources. In addition, these facts, forecasts and statistics have not been independently verified by us and may not be consistent with the information available from other sources, and may not be complete or up-to-date. We have taken reasonable caution in reproducing or extracting the information from such sources. However, because of potentially flawed methodologies, discrepancies in market practice and other problems, these facts, forecasts and other statistics may be inaccurate or may not be comparable from period to period or to facts, forecasts or statistics of other economies.

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

Investments in commercial banks in the PRC are subject to a number of ownership restrictions. For example, prior approval from the PRC banking regulatory authorities is required for any person or entity to acquire 5% or more of the share capital or total issued shares of a commercial bank in the PRC. If a shareholder of a commercial bank in the PRC acquires 5% or more of the above-mentioned share capital or total issued shares without obtaining prior approval from the PRC banking regulatory authorities, the shareholder will be subject to sanctions by PRC banking regulatory authorities, which may include, among other things, an order to rectify the non-compliance and fines and disgorgement of relevant profit. According to our Articles of Association, no legal entities or individuals may control 5% or more of our outstanding Shares by contracting to transfer Shares or holding Shares as a nominee, without approval of the bank regulatory authorities in violation of relevant requirements. Any such violation should be corrected within the prescribed period of time and the shareholders in violation of the requirements may not exercise shareholders' rights for the underlying Shares. In addition, under the PRC Company Law, we may not accept our own shares as pledge when we extend loans. Furthermore, according to our Articles of Association, any shareholder who has representatives on the Board of Directors or the Board of Supervisors, or directly or indirectly controls more than 2% of our shares or voting rights, must file with the Board ten business days prior to such shareholder pledges its shares to any lender as collateral. Shareholders that have outstanding loans from us exceeding the audited net value of their shares (under PRC GAAP) at the end of the previous fiscal year are not permitted to pledge such Shares to any party. Future changes in restrictions imposed by the PRC government or our Articles of Association on our shareholders and the shares they hold in our company could materially and adversely affect the value of your investment.

Our business, financial condition, results of operations and prospects and the value of your investment may be materially and adversely affected as a result of negative publicity associated with the PRC banking industry in general or our Bank, senior management or staff, even if such negative publicity is inaccurate, unsubstantiated or immaterial.

Reputation is crucial to the successful operation of a bank. In recent years, media reports of and public interest in the poor management and incidents of illegal operation of commercial banks are steadily growing. We cannot guarantee that we will not become the target of negative reports of the media (including the Internet) or involved in such negative reports as a result of our business operations or alleged misconduct of our senior management or staff. For instance, certain negative news reports alleging money laundering on the part of Ms. Zhang Yukun, our chairperson, and the Bank have come to our attention. Ms. Zhang and the Bank have categorically denied such allegations. Such negative reports on the Bank or our senior management or staff, whether correct or relevant or not, will have a material adverse effect on our reputation. As a result, our business, financial condition, results of operations and prospects, and the value of your investment, may be materially and adversely affected.

RISKS RELATING TO THE PRC

The PRC's economic, political and social conditions, as well as government policies, could affect our business, financial condition, results of operations and prospects.

Substantially all of our assets and operations are located in the PRC. As a result, our business, financial condition, results of operations and prospects are affected by the economic, political and legal developments in the PRC. In particular, the PRC government continues to have significant influence on the economic growth of the PRC through allocating resources, controlling payments of foreign currency-denominated obligations, setting monetary policy and providing preferential treatments to particular industries or companies. In recent years, the PRC government has implemented measures emphasizing the utilization of market forces in the economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises. These economic reform measures may be adjusted, modified or applied inconsistently from industry to industry, or across different regions of the country. As a result, some of these measures may benefit the overall economy of the PRC, but may have an adverse effect on us. For example, our results of operations may be adversely affected by government control over capital investments or changes in applicable tax regulations.

In addition to participating directly in the market activities, the PRC government has the power to implement macroeconomic policy measures affecting the economy of the PRC on a broader scale, including adjusting the benchmark interest rate and statutory deposit reserve ratio applicable to commercial banks in the PRC, implementing lending restrictions (including restrictions on release of personal mortgage loans and real estate loans to developers to curb the overheated real estate market), as well as issuing guidelines for industry development to promote or limit the growth of certain industries in China. Changes in macroeconomic and other conditions as a result of PRC government policies and actions will affect our business and operations as well as our financial performance.

Adverse developments in the PRC economy or an economic slowdown in the PRC may reduce the demand for our products and services and have a material adverse effect on our results of operations, financial condition and prospects.

We conduct most of our business and generate all of our revenues in the PRC. As a result, economic developments in the PRC have a significant effect on our financial condition and results of operations, as well as our prospects. In recent years, the PRC has been one of the world's fastest growing economies in terms of GDP growth. However, the global financial crisis that unfolded in 2008 and continued in the past few years has led to a marked slowdown in the economic growth of the PRC. For example, the GDP growth rate of the PRC decreased from 11.4% in 2007 to 7.7% in 2013, and further decreased to 7.4% in the first six months in 2014. The global economy may continue to deteriorate in the future and continue to have an adverse impact on the PRC economy. Any significant slowdown in the PRC economy could have a material adverse effect on the PRC banking industry as well as our business and operations. In particular:

- during a period of economic slowdown, there is a greater likelihood that more of our customers or counterparties could become delinquent in respect of their loan repayments or other obligations to us, which, in turn, could result in a higher level of non-performing loans, allowance for impairment losses on loans and write-offs, all of which would materially reduce our profit before tax;

- the value of our investments may significantly decline, which could materially and adversely affect our financial condition and results of operations;

- we may not be able to raise additional capital on favorable terms, or at all; and

- trade and capital flows may further contract as a result of protectionist measures introduced in certain markets, which could cause a further slowdown in economies and materially and adversely affect our business and prospects.

In addition, factors such as consumer, corporate and government spending, business investment, volatility of the capital markets and inflation all affect the business and economic environment, the growth of the PRC banking industry and ultimately, the profitability of our business. Our labor and other costs may also increase due to pressure from inflation. Any future calamities, such as natural disasters, outbreak of contagious diseases or social unrest, may cause a decrease in the level of economic activities and adversely affect the economic growth in the PRC, Asia and elsewhere in the world.

If the PRC economy experiences significant adverse developments or a significant downturn, our business, financial condition and results of operations would be materially and adversely affected.

Legal protections available to you under 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 receive consideration but have limited precedential value. Since 1979, the PRC government, with a view to developing a comprehensive body of commercial law, has promulgated laws, rules and regulations dealing with such economic matters as securities, shareholder rights, foreign investment, corporate organization and governance, commerce, taxation and trade. Nevertheless, because these laws, rules and regulations are relatively new, and the products, instruments and overall structure of the PRC banking industry continue to evolve, the effect of these laws, rules and regulations on the rights and obligations of implicated parties will often be uncertain. As a result, the legal protections available to you under the PRC legal system may be limited.

Our Articles of Association provide that disputes between holders of H Shares and us, our directors, supervisors or senior officers or claims against us, our directors, supervisors or senior officers in relation to our affairs arising out of our Articles of Association, the rights and obligations under the PRC Company Law or other relevant laws or administrative regulations shall be submitted to arbitration according to the provisions of our Articles of Association and such arbitration shall be final. A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission in accordance with its rules or the Hong Kong International Arbitration Centre in accordance with its Securities Arbitration Rules. Hong Kong arbitral awards can generally be enforced in Hong Kong. Hong Kong arbitration awards may be recognized and enforced by PRC courts, subject to the satisfaction of certain conditions. However, to our knowledge, no action has been brought in the PRC by any holder of H Shares to enforce a Hong Kong arbitral award made in favour of the holders of H Shares, and we cannot assure you that such an action would succeed. For these reasons, the legal protections available to you as a holder of our H Shares may be limited.

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

We are a company incorporated under the laws of the PRC, and substantially all of our assets and subsidiaries are located in the PRC. In addition, the majority of our Directors, Supervisors and executive officers reside within the PRC, and the assets of our Directors and officers may be located within the PRC. As a result, it may not be possible to effect service of process within the United States or elsewhere outside of the PRC upon most of our Directors, Supervisors and executive officers, including with respect to matters arising under the U.S. Federal securities laws or applicable state securities laws. Moreover, the PRC does not have treaties providing for the reciprocal enforcement of judgments of courts with the United States, the United Kingdom, Japan or most other Western 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 in the United States and any of the other jurisdictions mentioned above in relation to any matter that is not subject to a binding arbitration provision may be difficult or impossible.

In addition, although we will be subject to the Listing Rules and the Takeovers Code upon the listing of our H Shares on the Hong Kong Stock Exchange, the holders of H Shares will not be able to bring actions on the basis of violations of the Listing Rules but must rely on the Hong Kong Stock Exchange to enforce its rules. Furthermore, the Listing Rules and the Takeovers Code do not have the force of law.

You may be subject to PRC taxation for dividends received and gains realized in connection with our H Shares.

Under the PRC tax law, holders of our H Shares who are not PRC residents or PRC resident enterprises are generally subject to PRC income tax on dividends received from us at the rate of 20% and 10%, respectively. We would be required to withhold such tax from our dividend payments to them, subject to any reduction or exemption under any tax treaties between the PRC and the jurisdictions of such non-PRC residents or non-PRC resident enterprises. Similarly, holders of our H Shares who are non-PRC residents or non-PRC resident enterprises would be required to pay PRC income tax on gains from the dispositions of our H Shares at the rate of 20% or 10%, respectively, subject to any reduction or exemption under any tax treaties between the PRC and the jurisdictions of such non-PRC residents or non-PRC resident enterprises.

However, despite the arrangements mentioned above, the PRC tax laws and rules may change, such as the relevant preferential tax treatment being revoked in the future such that all non-PRC resident individual holders will be subject to PRC individual income tax at a flat rate of 20%. In addition, there remains significant uncertainty as to the interpretation and application of the relevant PRC tax laws and rules, such as taxation on profits arising from transfer of our H Shares by non-PRC resident enterprise holders or non-PRC resident individual holders. If there is any change to current tax laws and rules or to their interpretation or application, the value of such holders' investments in our H Shares may be materially and adversely affected. See Appendix VI – "Taxation and Foreign Exchange – 1. Taxation of Security Holders – A. The PRC Taxation" in this prospectus.

Payment of dividends is subject to restrictions under PRC laws.

Under the applicable PRC laws, dividends may be paid only out of distributable profits. Our distributable profits represent the sum of our net profits and our undistributed profits at the beginning of the year as determined under the PRC GAAP or IFRS (whichever is lower), less the statutory surplus reserves, general reserves, and discretionary surplus reserves (the appropriation of which is to be determined at the shareholders' general meeting) appropriated in accordance with the laws. As a result, we may not have sufficient distributable profits, if any, to make dividend distributions to our shareholders in the future, including in respect of periods where we register an accounting profit. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years.

In addition, the CBRC has the discretionary authority to restrict dividend payments and other distributions by any bank that fails to fulfill the capital adequacy ratio requirements, or that has violated certain other PRC banking regulations. See "Supervision and Regulation – Supervision over Capital Adequacy" and "Supervision and Regulation – Principal Regulators – CBRC".

We are subject to the PRC government controls on currency conversion and risks relating to fluctuations in exchange rates.

Substantially all of our revenue is denominated in Renminbi, which is currently not a freely convertible currency. A portion of this revenue must be converted into other currencies in order to meet our foreign currency obligations, including any payment of dividends on our H Shares.

Under the existing foreign exchange regulations of the PRC, following the completion of the Global Offering, by complying with certain procedural requirements, we will be able to undertake foreign exchange transactions in current accounts, including payment of dividends without prior approval from the SAFE. However, the PRC government may, at its discretion, take measures to restrict access to foreign currencies for capital-account and current-account transactions, which would limit our ability to exchange Renminbi for other currencies. As a result, we may not be able to pay dividends in foreign currencies to holders of our H Shares.

The value of the Renminbi against the US dollar and other currencies fluctuates and is affected by, among other things, changes to the domestic and international political environments, as well as changes in the PRC government's fiscal, monetary and currency policies. In July 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the US dollar. Under the new policy, the Renminbi is permitted to fluctuate in a regulated band that is based on reference to a basket of currencies determined by the PBOC. In June 2010, the PBOC announced that the PRC will further reform the Renminbi exchange rate regime and enhance the RMB exchange rate flexibility. In April 2012, the PBOC expanded the floating range of Renminbi against the US dollar in the inter-bank spot foreign exchange market from 0.5% to 1% and further expanded it to 2% in March 2014, and it is expected that the PRC may further reform its exchange rate system in the future. Fluctuations of the Renminbi could adversely affect the value of our foreign currency-denominated investments and the value in foreign currency terms of cash flow generated from our operations or any dividends payable on our H Shares, and therefore the price of our Shares.

Any appreciation of the Renminbi against the US dollar or any other foreign currencies may diminish the value of our foreign currency-denominated assets. Conversely, any depreciation of the Renminbi may cause the value of our H Shares and dividends paid on our H Shares to decrease in foreign currency terms. As of June 30, 2014, 0.98% of our assets and 1.02% of our liabilities were denominated in foreign currencies. We cannot assure you that we will be able to reduce our foreign currency risk exposure relating to our foreign currency-dominated assets. In addition, there are limited instruments available for us to reduce our foreign currency risk exposure at reasonable costs. See "Financial Information – Quantitative and Qualitative Analysis of Market Risk – Foreign Exchange Risk". Any appreciation of the Renminbi against the US dollar or any other foreign currencies may also materially and adversely affect the financial condition of certain of our customers, particularly those deriving substantial income from product exporting or related businesses, and in turn may impair their abilities to fulfil their obligations to us. In addition, if we convert substantial amounts of foreign currencies into Renminbi in the future, we are required to obtain the approval from SAFE in advance. All of these factors could materially and adversely affect our financial condition, results of operations and compliance with capital adequacy and operating ratios.

Any future occurrence of major natural disasters or outbreaks of fatal contagious diseases in the PRC may have a material adverse effect on our business, financial condition and results of operations.

Any future occurrence of major natural disasters or outbreaks of fatal health epidemics and contagious diseases may severely disrupt our business and materially and adversely affect our financial condition and results of operations. An outbreak of a health epidemic or contagious disease could cause a widespread health crisis and hamper business activities in affected areas, which could in turn severely disrupt our operations. Future occurrence of natural disasters or outbreak of health epidemics and contagious diseases, or measures taken by the PRC government or other countries in response to such outbreak of health epidemics and contagious diseases may also seriously interrupt our operations or those of our customers, which could have a material adverse effect on our financial condition and results of operations.

RISKS RELATING TO THE GLOBAL OFFERING

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 be sustained following the Global Offering. In addition, the Offer Price of our H Shares is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and us (on behalf of ourselves and the Selling Shareholders), and may not be indicative of the market price of our H Shares following the completion of the Global Offering. 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 cause the prevailing market price of our H Shares to decrease significantly as well as dilute our shareholders' H shareholdings.

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 issue additional securities in future offerings. New equity or equity-linked securities issued by our Bank may also confer rights and privileges that take priority over those conferred by the H Shares.

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

The Bank's 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 process and the 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. 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.

As the Offer Price of our H Shares is higher than our net tangible asset value per share, you will experience immediate dilution.

The initial public offering price of our H Shares is higher than the net tangible asset value per share of the outstanding shares of our then-existing shareholders as of June 30, 2014. As a result, purchasers of our H Shares in the Global Offering will experience an immediate dilution by HK$0.53 per share, representing the difference between the Offer Price and the pro forma adjusted net tangible asset value per share as of June 30, 2014, without giving effect to any changes to our net tangible assets subsequent to June 30, 2014 other than the Global Offering (assuming an offer price of HK$7.81 per share for our H Shares, being the high-end of our indicative offer price ranges of the Global Offering, respectively, and assuming that the Over-Allotment Option for the Global Offering is not exercised and after deduction of estimated underwriting fees and offering expenses in connection with the Global Offering payable by us). If the Over-Allotment Option for the Global Offering is exercised, or if we issue additional shares in the future, purchasers of our H Shares could experience further dilution.

Dividends distributed in the past may not be indicative of our dividend policy 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 future details of our dividend policy, see "Financial Information – Dividend Policy". We cannot guarantee if and when we will pay dividends in the future.

Since there may be a gap of three Hong Kong 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 four 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 not place reliance on any information released by us other than this prospectus, the Application Forms and other formal announcements made with respect to our Global Offering, any information contained in press articles or other media in 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 purportedly 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 addition, due to the differences in disclosure requirements and applicable accounting standards, the information about us and our financial information disclosed in prospectus in connection with our A Share listing (application proof) published on the website of the CBRC and the annual reports published on our website may be inconsistent or maybe even contradict what is disclosed in this prospectus. 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 the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purpose of giving information to the public with regard to us. The 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 any statement herein or this prospectus misleading.

CSRC AND CBRC APPROVALS

We have obtained approvals from the CBRC and the CSRC for the Global Offering and the making of the application to list our H Shares on the Hong Kong Stock Exchange, on April 3, 2014 and November 26, 2014, respectively. In granting such approvals, neither the CSRC nor the CBRC accepts any responsibility for our financial soundness, nor for the accuracy of any of the statements made or opinions expressed in this prospectus or in the Application Forms.

UNDERWRITING AND INFORMATION ON THE GLOBAL OFFERING

This prospectus is published solely in connection with the Hong Kong Public Offering which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering.

The listing of our H Shares on the Hong Kong Stock Exchange is sponsored by the Sole Sponsor. The Global Offering is managed by the Joint Global Coordinators. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement. The International Underwriting Agreement relating to the International Offering is expected to be entered into on or about the Price Determination Date, subject to determination of the pricing of the Offer Shares. For further details about the Underwriters and the underwriting arrangements, see "Underwriting – Hong Kong Underwriting Arrangements – Hong Kong Public Offering" 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 our Bank, the Selling Shareholders, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information in this prospectus is correct as of any subsequent time.

DETERMINATION OF THE OFFER PRICE

The H Shares are being offered at the Offer Price which will be determined by the Joint Global Coordinators (on behalf of the Underwriters) and us (on behalf of ourselves and the Selling Shareholders) on or around December 19, 2014 or such later date as may be agreed upon between the Joint Global Coordinators (on behalf of the Underwriters) and us (on behalf of ourselves and the Selling Shareholders), and in any event no later than December 24, 2014. If the Joint Global Coordinators (on behalf of the Underwriters) and us (on behalf of ourselves and the Selling Shareholders) are unable to reach an agreement on the Offer Price on such date, the Global Offering will not proceed and will lapse.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

Each person acquiring the Offer Shares will be required to confirm, or by his acquisition of the Offer Shares will be deemed to confirm, that he is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit an offering of the Offer Shares other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, and without limitation to the following, 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 Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been offered and sold, and will not be offered or sold, directly or indirectly, in the PRC.

SELLING SHAREHOLDERS

	Name	Number of Sale Shares (assuming the Over-Allotment Option is not exercised)	Number of Sale Shares (assuming the Over-Allotment Option is exercised in full)
1.	Shenyang Hengxin State-Owned Asset Management Group Company Limited (瀋陽恒信國有資產經營集團有限公司)	146,060	167,971
2.	Shenyang Wuai Industry Company Limited (瀋陽五愛實業有限公司)	73,037,024	83,992,578
3.	Shenyang Hengxin Investment Management Company Limited (瀋陽恒信投資管理有限公司)	29,196,550	33,576,033
4.	Jiangsu Yueda Group Company Limited (江蘇悅達集團有限公司)	5,842,414	6,718,776
5.	Shenyang Yuhong District State-Owned Assets Management Company (瀋陽市于洪區國有資產經營公司)	14,607,404	16,798,515
6.	Shenyang Thermal Power Development Company Limited (瀋陽熱電發展有限公司)	517,755	595,418
7.	Liaoning Finance Training College (遼寧金融職業學院)	486,469	559,439
8.	Shenyang Hi-tech Startup Center (瀋陽市高科技創業中心)	326,781	375,798
9.	Shenyang Science and Technology Risk Investment Company Limited (瀋陽科技風險投資有限公司)	255,197	293,476
10.	Shenyang Nanhu Science and Technology Development Group Corporation (瀋陽南湖科技開發集團公司)	130,403	149,963

	Name	Number of Sale Shares (assuming the Over-Allotment Option is not exercised)	Number of Sale Shares (assuming the Over-Allotment Option is exercised in full)
11.	Shenyang Shengong Career Development Center (瀋陽市瀋工事業發展中心)	127,160	146,234
12.	PICC Investment Holding Company Limited (人保投資控股有限公司)	86,292	99,236
13.	Shenyang International Science and Technology Development Company (瀋陽國際科技開發公司)	67,363	77,468
14.	Shenyang Science and Technology Venture Capital Development Center (瀋陽科技風險開發事業中心)	48,945	56,286
15.	Shenyang Industrial Products Trading Center (瀋陽工業品貿易中心)	34,514	39,691
16.	Shenyang Agricultural Science and Technology Development Institute (瀋陽農業科技開發院)	32,060	36,869
17.	Shenyang Branch of Chinese Academy of Sciences (中國科學院瀋陽分院)	16,885	19,418
18.	Shenyang Research Institute of Petroleum and Petrochemicals (瀋陽市石油化工研究院)	8,515	9,792
19.	Shenyang Grain, Oil Food Science Research Institute (瀋陽市糧油食品科學研究所)	8,515	9,792
20.	Shenyang Shenhe District Binhe Road Sub-district Office (瀋陽市瀋河區濱河街道辦事處)	4,601	5,291

	Name	Number of Sale Shares (assuming the Over-Allotment Option is not exercised)	Number of Sale Shares (assuming the Over-Allotment Option is exercised in full)
21.	Shenyang Huanggu District Santaizi Road Sub-district Office Economic Development Service (瀋陽市皇姑區三檯子街道辦事處經濟發展服務中心)	3,579	4,115
22.	Shenyang Shenhe District Danan Road Sub-district Office (瀋陽市瀋河區大南街道辦事處)	2,805	3,225
23.	Shenyang Shenhe District Beizhan Road Sub-district Office (瀋陽市瀋河區新北站街道辦事處)	1,899	2,184
24.	Shenyang Heping District Nanshichang Road Sub-district Office (瀋陽市和平區南市場街道辦事處)	1,315	1,512
25.	Shenyang Heping District Maluwan Road Sub-district Office (瀋陽市和平區馬路灣街道辦事處)	1,315	1,512
26.	Shenyang Heping District Bajing Road Sub-district Office (瀋陽市和平區八經街道辦事處)	1,300	1,495
27.	Shenyang Shichuang Water Project Group Company Limited (瀋陽世創自來水工程集團有限責任公司)	1,285	1,478
28.	Liaoning Province Exhibition & Trade Group Company Limited (遼寧省展覽貿易集團有限公司)	1,154	1,327
29.	Shenyang Tiexi District Dugong Road Sub-district Office (瀋陽市鐵西區篤工街道辦事處)	906	1,042

	Name	Number of Sale Shares (assuming the Over-Allotment Option is not exercised)	Number of Sale Shares (assuming the Over-Allotment Option is exercised in full)
30.	Shenyang Heping District Shengli Kindergarten (瀋陽市和平區勝利幼兒園)	599	689
31.	Shenyang Heping District Jixian Road Sub-district Office (瀋陽市和平區集賢街道辦事處)	599	689
32.	Shenyang Shenhe District Xiaonan Road City Construction Management Authority (瀋陽市瀋河區小南街道城市建設管理所)	511	588
33.	Shenyang Shenhe District Danan Road Sub-district Office Center (瀋陽市瀋河區大南街道辦事處中心園所)	511	588
34.	Shenyang Shenhe District Yangguang Kindergarten (瀋河區陽光幼兒園)	511	588
35.	Shenyang Oil Chemical Factory (瀋陽油脂化學廠)	453	521
36.	Shenyang Huanggu District Liaohe Road Sub-district Office Economic Development Service Center (瀋陽市皇姑區遼河街道經濟發展服務中心)	351	403

CERTAIN MATTERS RELATING TO THE HONG KONG PUBLIC OFFERING

Application for Listing on the Hong Kong Stock Exchange

We have applied to the Listing Committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in, our H Shares including: (i) any H Shares which may be issued by our Bank pursuant to the Global Offering and upon the exercise of the Over-Allotment Option; and (ii) the H Shares converted from Domestic Shares and offered by the Selling Shareholders pursuant to the Global Offering and upon the exercise of the Over-Allotment Option. Dealings in the H Shares on the Hong Kong Stock Exchange are expected to commence on December 29, 2014.

Our Domestic Shares may be converted to H Shares after obtaining the approval of the CSRC or the authorized securities approval authorities of the State Council and after satisfying certain procedural requirements.

Except as otherwise disclosed in this prospectus, no part of our share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

H Share Register and Stamp Duty

All of the H Shares issued pursuant to applications made in the Hong Kong Public Offering and the International Offering will be registered on our H Share register to be maintained in Hong Kong. Our principal register of members will be maintained by us at our headquarters in the PRC.

Dealings in the H Shares registered in our H Share register will be subject to the Hong Kong stamp duty. See "Appendix VI – Taxation and Foreign Exchange" in this prospectus.

Dividends Payable to Holders of H Shares

Unless determined otherwise by our Bank, dividends payable in Hong Kong dollars in respect of H Shares will be paid to shareholders as recorded in our H Share register, and sent by ordinary post, at the shareholders' own risk, to the registered address of each shareholder.

Professional Tax Advice Recommended

Applicants for the Hong Kong Offer Shares are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to, the H Shares. It is emphasized that neither we nor the Selling Shareholders, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, nor their respective directors, nor any other person or party involved in the Global Offering accepts responsibility for any tax effects or liabilities of holders of H Shares resulting from the subscription, purchase, holding, disposal of, dealing in, or exercise of any rights in relation to, the H Shares.

Registration of Subscription, Purchase and Transfer of H Shares

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

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

(ii) 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 of our shareholders, 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, rules and 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 arbitration shall be final and conclusive;

(iii) agrees with us and each of our shareholders that the H Shares are freely transferable by the holders thereof; and

(iv) authorizes us to enter into a contract on his 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.

Persons applying for or purchasing H Shares under the Global Offering are deemed, by their making an application or purchase, to have represented that they are not close associates (as such term is defined in the Listing Rules) of any of the Directors of our Bank or an existing Shareholder of our Bank or a nominee of any of the foregoing.

Procedure for Application for Hong Kong Offer Shares

The procedure for applying for Hong Kong Offer Shares is set forth in the section entitled "How to Apply for Hong Kong Offer Shares" of this prospectus and the Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set forth in the section entitled "Structure of the Global Offering" of this prospectus.

OVER-ALLOTMENT AND STABILIZATION

Details of the arrangements relating to the Over-Allotment Option and the stabilization are set forth in the section entitled "Underwriting" of this prospectus.

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the H Shares on the Hong Kong Stock Exchange and our compliance with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Hong Kong Stock Exchange or any other date as determined by HKSCC. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional advisors for the details of the settlement arrangements as such arrangements may affect their rights and interests. All necessary arrangements have been made for the H Shares to be admitted into CCASS.

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations of certain Renminbi amounts into US dollars and Hong Kong dollars at specified rates. No representation is made that the amounts denominated in one currency could actually be converted into another currency at the rates indicated or at all. Unless we indicate otherwise, (i) the translation of Renminbi into US dollars was made at the rate of RMB6.1429 to US$1.00, the noon buying rate in effect on November 28, 2014 as set forth in the H.10 weekly statistical release of the Board of Governors of the Federal Reserve System of the United States (the "Federal Reserve Board") dated December 1, 2014; (ii) the translation of Hong Kong dollars into US dollars was made at the rate of HK$7.7548 to US$1.00, the noon buying rate in effect on November 28, 2014 as set forth in the H.10 weekly statistical release of the Federal Reserve Board dated December 1, 2014; and (iii) the translation of Renminbi into Hong Kong dollars was made at the rate of RMB0.79061 to HK$1.00, the median rate set by the PBOC for foreign exchange transactions prevailing on December 8, 2014. Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Translated English names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities included in this prospectus and for which no official English translation exists are unofficial translations for your reference only.

ROUNDING

In this prospectus, where information is presented in hundreds, thousands, ten thousands, millions or hundred millions, certain amounts of less than one hundred, one thousand, ten thousand, one million or a hundred million, as the case may be, have been rounded to the nearest hundred, thousand, ten thousand, million or hundred million, respectively. Amounts presented as percentages have, in certain cases, been rounded to the nearest tenth or hundredth of a percent. Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding.

WAIVER FROM HONG KONG FINANCIAL DISCLOSURE REQUIREMENTS

Rule 4.10 of the Listing Rules states that the information to be disclosed in respect of Rules 4.04 to 4.09 must be in accordance with best practices under the Companies Ordinance and Hong Kong Financial Reporting Standards, IFRS or China Accounting Standards for Business Enterprises in the case of PRC issuers, and, in the case of banking companies, the "Financial Disclosure by Locally Incorporated Authorized Institutions" ("FD-1") from the Supervisory Policy Manual issued by the HKMA.

The Banking Disclosure Rules issued by the HKMA replace, inter alia, FD-1 and are applicable to relevant authorized institutions from the beginning of its first financial year commencing on or after January 1, 2007. As we are 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.

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

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

Section Number	Disclosure Requirements[(1)]	Reason for a Waiver in Relation to the Specific Disclosure	Proposal for Disclosure	Expected Timing for Full Compliance
47	Sector information	Our Bank maintains a breakdown of loans and advances to customers by industry sector as set out in the Classification and Codes of National Economic Industries in its loans system for the purpose of filing a return to the CBRC.	For our Bank, all the loans and advances to customers are used in the PRC instead of in Hong Kong. Our Bank is subject to the supervision of the CBRC and maintains a breakdown of loans and advances to customers by industry sector based on the classification system as prescribed by the CBRC, e.g., loans are categorized into corporate loans and personal loans which are further classified into detailed sub-categories by industry/nature. Our Bank has disclosed the loans and advances to customers in industry sectors in accordance with its management reports based on the CBRC classification in Note 19(2) 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
50	An authorized institution shall disclose its non-HK$ currency exposures which arise from trading, non-trading and structural positions in accordance with the return relating to non-HK$ currency positions it submitted to HKMA pursuant to section 63 of the Banking Ordinance in respect of the annual reporting period.	Our Bank's accounts are settled in RMB, which means that our Bank only disclosed non-RMB currency exposures instead of non-HK$ currency exposures.	N/A	N/A
53-64	Additional annual disclosure to be made by an authorized institution using STC approach to calculate its credit risk for non-securitization exposures.	The computation basis for risks is promulgated by the CBRC as set out in the Core Indicators (Provisional).	Our Bank can provide relevant capital structure and adequacy in accordance with the disclosure requirements from the CBRC's requirements. Our Bank believes that such requirements attempt to address similar disclosure purpose as the requirements of the Banking Disclosure Rules.	N/A

Note:

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

Save for the above, as a financial institution incorporated and based in the PRC, we are required to comply with the regulatory requirements of the CBRC and the PBOC. Certain provisions of the Banking Disclosure Rules require disclosure in respect of our capital structure, capital base (in particular, relating to our level of capital adequacy), cross-border claims, liquidity ratios, PRC non-bank exposures and credit risks. We have maintained and compiled data relating to these matters in accordance with the regulatory requirements of the CBRC and the PBOC. We believe that the CBRC and the PBOC requirements attempt to address similar disclosure considerations to the requirements of the Banking Disclosure Rules and the differences between the above disclosure requirements under the two regulatory regimes are minimal and immaterial. It will be unduly burdensome for us to attempt to comply with such items under the Banking Disclosure Rules in parallel with the CBRC and the PBOC regulations as we would be required, in our view, to carry out unnecessary additional work to compile similar information already required and maintained in accordance with the CBRC and the PBOC regulations. As a result, we propose to disclose information which complies with the CBRC and the PBOC regulations in this regard instead of strictly following the disclosure regime provided for under the Banking Disclosure Rules, which will result in the compilation of similar data. We are of the view that this prospectus will contain sufficient information for investors to make their fully informed investment decision notwithstanding the differences between the CBRC and the PBOC requirements on the one hand, and the requirements of the Banking Disclosure Rules on the other. The Sole Sponsor concurs with the view of our Bank based on the reasoning set out above.

Based on the above, we have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 4.10 of the Listing Rules, such that we will not fully comply with the requirements in respect of financial disclosures provided for under the Banking Disclosure Rules on the condition that as soon as we obtain the relevant information, we must comply with the requirements under Rule 4.10 of the Listing Rules.

WAIVER IN RELATION TO JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, the company secretary of our Bank must be an individual who by virtue of his 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:

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

We have appointed Mr. Bao Hong ("Mr. Bao") as one of the joint company secretaries. Mr. Bao has been the director of the Board's office as early as September 2009, and the secretary to the Board since August 2013. Mr. Bao has extensive knowledge about the business operations and corporate culture of our Bank and has extensive experience in matters concerning the board of directors and corporate governance of our Bank. However, Mr. Bao does not possess the specified qualifications strictly required by Rule 3.28 of the Listing Rules. As a result, we have appointed Ms. Kwong Yvonne Yin Ping ("Ms. Kwong"), who meets the requirements under Rule 3.28 of the Listing Rules, to act as another joint company secretary and to provide assistance to Mr. Bao for an initial period of three years from the Listing Date so as to fully comply with the requirements set forth under Rules 3.28 and 8.17 of the Listing Rules.

Ms. Kwong will work closely with Mr. Bao to jointly discharge the duties and responsibilities as company secretary and assist Mr. Bao to acquire the relevant experience as required under Rule 3.28 of the Listing Rules. In addition, Mr. Bao will attend relevant trainings to enhance and improve his knowledge of and familiarity with the Listing Rules and other relevant laws, rules and regulations.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements of Rules 3.28 and 8.17 of the Listing Rules, for an initial period of three years from the Listing Date, on the condition that Ms. Kwong is engaged as a joint company secretary and provides assistance to Mr. Bao during this period. If Ms. Kwong ceases to render assistance to Mr. Bao during this period, the waiver will be immediately withdrawn. Upon expiry of the three-year period, we will conduct a further evaluation of the qualification and experience of Mr. Bao to determine whether the requirements as stipulated in Rules 3.28 and 8.17 of the Listing Rules can be satisfied. We and Mr. Bao would then endeavor to demonstrate to the Hong Kong Stock Exchange's satisfaction that Mr. Bao, having had the benefit of Ms. Kwong's assistance, would have acquired the relevant experience within the meaning of Note 2 to Rule 3.28 of the Listing Rules, so that a further waiver would no longer be necessary.

WAIVER IN RELATION TO MANAGEMENT PRESENCE

Pursuant to Rules 8.12 and 19A.15 of the Listing Rules, we must have a sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. Since substantially all of the business operations of our Bank are outside of Hong Kong, and all of our executive Directors ordinarily reside in the PRC, we do not have, and for the foreseeable future will not have, sufficient management presence in Hong Kong for the purpose of satisfying the requirements under Rule 8.12 of the Listing Rules. Accordingly, we have 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:

(a) we have appointed Ms. Zhang Yukun, the chairperson of our Bank, and Mr. Bao Hong, a joint company secretary of our Bank, as authorized representatives for the purpose of Rule 3.05 of the Listing Rules to serve as our principal channel of communication with the Hong Kong Stock Exchange. We have provided the Hong Kong Stock Exchange with the contact details of these authorized representatives, and they can be readily contactable to deal promptly with inquiries from the Hong Kong Stock Exchange, and will also be available to meet with the Hong Kong Stock Exchange to discuss any matters on short notice. As and when the Hong Kong Stock Exchange wishes to contact the Directors on any matters, each of these authorized representatives will have the means to contact all of the Directors promptly at all times;

(b) we have implemented such measures that (i) each Director must provide his or her mobile phone number, office phone number, facsimile number and email address to these authorized representatives; and (ii) in the event that a Director expects to travel or otherwise be out of the office, he or she will provide the phone number of the place of his or her accommodation to these authorized representatives;

(c) we have provided the Hong Kong Stock Exchange with the contact details of each Director (including their respective mobile phone number, office telephone number, fax number and e-mail address) to facilitate communication with the Hong Kong Stock Exchange. Furthermore, each Director who is not ordinarily resident in Hong Kong possesses or is able to apply for valid travel documents to visit Hong Kong and is able to meet with the Hong Kong Stock Exchange within a reasonable period; and

(d) we have appointed a compliance advisor, CMB International Capital Limited, pursuant to Rule 3A.19 of the Listing Rules to act as our additional channel of communication with the Hong Kong Stock Exchange, and the representative(s) of the compliance advisor will be fully available to answer inquiries from the Hong Kong Stock Exchange. The compliance advisor will have access at all times to the authorized representatives, the Directors and the other senior management of our Bank to ensure that it is in a position to provide prompt responses to any inquiries or requests from the Hong Kong Stock Exchange in respect of our Bank.

WAIVER IN RELATION TO PUBLIC FLOAT

Rules 8.08(1)(a) and (b) 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 (i) at least 25% of the issuer's total issued share capital must at all times be held by the public; and (ii) where an issuer has more than one class of securities apart from the class of securities for which listing is sought, the total securities of the issuer held by the public (on all regulated market(s) including the Hong Kong Stock Exchange) at the time of listing must be at least 25% of the issuer's total issued share capital.

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.

We have applied to the Hong Kong Stock Exchange to request the Hong Kong Stock Exchange to exercise, 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 highest of:

(a) 24.35%;

(b) such percentage immediately upon completion of the Global Offering; or

(c) such percentage after the exercise of the Over-Allotment Option (being not more than 25%),

of the enlarged issued share capital of our Bank, on the condition that the Bank's market capitalization be at least HK$10 billion at the time of the Listing and appropriate disclosure of the lower prescribed percentage of public float and confirmation of sufficiency of public float in successive annual reports after the Listing.

SUBSCRIPTION BY EXISTING MINORITY SHAREHOLDERS

Rule 10.04 of the Listing Rules requires that a person who is an existing shareholder of the issuer may only subscribe for or purchase any securities for which listing is sought which are being marketed by or on behalf of a new applicant either in his or its own name or through nominees if the conditions in Rules 10.03(1) and (2) of the Listing Rules are fulfilled.

It is provided in Rule 10.03 (1) of the Listing Rules that no securities may be offered to existing shareholders on a preferential basis and no preferential treatment may be given to them in the allocation of the securities; and (2) the minimum prescribed percentage of public shareholders required by Rule 8.08(1) shall be met. Paragraph 5(2) of Appendix 6 to the Listing Rules provides that no allocations will be permitted to the existing shareholders of the applicant or their close associates, whether in their own names or through nominees, in the Global Offering unless the conditions set out in Rules 10.03 and 10.04 are fulfilled.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rule 10.04 of the Listing Rules and paragraph 5(2) of Appendix 6 to the Listing Rules in respect of proposed placing of H Shares in the International Offering to certain existing minority shareholders of our Bank.

The above waiver has been granted by the Hong Kong Stock Exchange on the conditions that:

(i) none of the existing minority shareholders (together with their respective close associates) individually holds more than 1% of our Bank's total issued share capital immediately before the completion of the Global Offering;

(ii) the existing minority shareholders and their close associates are not core connected persons of the Bank, and will not become core connected persons of the Bank upon the completion of the Global Offering. Therefore, it will not negatively impact the Bank's ability to meet the minimum public float requirement of 24.35% (or a higher percentage after the exercise of the Over-Allotment Option) as accepted by the Hong Kong Stock Exchange;

(iii) none of the existing minority shareholders or their close associates have any representation on the Board of Directors and they will not have influence over the terms of the subscription or share allocation process; and

(iv) no preferential treatment will be given to the existing minority shareholders and their close associates in the allocation process.

WAIVER IN RELATION TO CLAWBACK MECHANISM

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with paragraph 4.2 of Practice Note 18 of the Listing Rule such that, an alternative clawback mechanism shall be applied to the provisions under Paragraph 4.2 of Practice Note 18 of the Listing Rules, following the closing of the application lists. For further information, please refer to "Structure of the Global Offering – The Hong Kong Public Offering – Reallocation and Clawback."

CORNERSTONE INVESTMENT BY SHENG HUA FUND

Paragraph 5(1) of Appendix 6 of the Listing Rules (the "Placing Guidelines") states that, without the prior written consent of the Hong Kong Stock Exchange, no allocations will be permitted to "connected clients" of the lead broker or of any distributors.

One of the cornerstone investors is Sheng Hua Financial Stable Growth Investment Fund SP (盛華金融穩健成長投資基金) ("Sheng Hua Fund"). Sheng Hua Fund is a sub-fund of Global High Growth Industries Fund Series SPC. Global High Growth Industries Fund Series SPC is incorporated, and registered as a mutual fund in the Cayman Islands on February 13, 2014 and on March 3, 2014, respectively. Sheng Yuan Asset Management Limited ("**Sheng Yuan Asset Management**") is the investment manager of Sheng Hua Fund. Sheng Yuan Asset Management and one of the Underwriters are affiliated companies within the same group. As such, Sheng Hua Fund is a connected client of the lead broker or distributors pursuant to paragraph 5(1) of the Placing Guidelines.

Subject to certain conditions imposed, Sheng Hua Fund may participate in the Global Offering as a cornerstone investor. The terms of the cornerstone investment by Sheng Hua Fund are substantially the same as those of other cornerstone investors, and no preferential treatment or any direct/indirect benefits have been given to Sheng Hua Fund. In addition, the H Shares to be placed to Sheng Hua Fund will be held on behalf of independent third parties. For further information of Sheng Hua Fund's investment in the H Shares, please refer to the section headed "Cornerstone Investors" in this prospectus.

DIRECTORS

Name	Residential Address	Nationality
Executive Directors		
Ms. ZHANG Yukun (張玉坤) *(Chairperson)*	#2-2-3, No. 2-1 Beiliujing Street Heping District Shenyang Liaoning Province PRC	Chinese
Mr. WANG Chunsheng (王春生)	#3-6-3, No. 78 Wanshousi Street Shenhe District Shenyang Liaoning Province PRC	Chinese
Mr. ZHAO Guangwei (趙光偉)	North 1-4, No. 101 Heping North Avenue Heping District Shenyang Liaoning Province PRC	Chinese
Mr. WANG Yigong (王亦工)	#5-8-1, No.13-1 Guihe Street Tiexi District Shenyang Liaoning Province PRC	Chinese
Mr. WU Gang (吳剛)	#2-6-2, No. 26-6 Wuai Street Shenhe District Shenyang Liaoning Province PRC	Chinese

Name	Residential Address	Nationality
Non-executive Directors		
Mr. LI Yuguo (李玉國) *(Vice Chairman)*	No. 88-5 Dongsihuan North Road Chaoyang District Beijing PRC	Chinese
Mr. LI Jianwei (李建偉)	#3-2-1, No. 64-1 Beiyijing Street Shenhe District Shenyang Liaoning Province PRC	Chinese
Mr. ZHAO Weiqing (趙偉卿)	Room 302, Unit 4 Xinghe Apartment Gongshu District Hangzhou Zhejiang Province PRC	Chinese
Ms. YANG Yuhua (楊玉華)	#602, Door 1 35th Floor Xing Fu Er Cun Chaoyang District Beijing PRC	Chinese
Mr. LIU Xinfa (劉新發)	#1-4-2, No. 119 Kunshan Zhong Road Huanggu District Shenyang Liaoning Province PRC	Chinese

Name	Residential Address	Nationality
Independent Non-executive Directors		
Mr. YU Yongshun (于永順)	Room 401, Unit 5 Block 1, Fenghuiyuan Xicheng District Beijing PRC	Chinese
Mr. LAU Chi Pang (劉智鵬)	Flat 801 Chung Shun Hall Lingnan University Tuen Mun Hong Kong	Chinese
Mr. BA Junyu (巴俊宇)	#1-5-1, No. 5 Kunshan Zhong Road Huanggu District Shenyang Liaoning Province PRC	Chinese
Mr. SUN Hang (孫航)	#3-1-1, No. 21-1 Xinlenan Alley Lanshan Road Yuhong District Shenyang Liaoning Province PRC	Chinese
Mr. DING Jiming (丁繼明)	Room 502, Unit 4 No. 2 Building Baiyun Road Changgou Street Changgou Town Fangshan District Beijing PRC	Chinese

SUPERVISORS

Name	Residential Address	Nationality
Mr. YANG Lin (楊林) *(Chairman)*	#2-2-2, No. 28-7 Shenzhou Road Shenhe District Shenyang Liaoning Province PRC	Chinese
Mr. HAN Xuefeng (韓學豐) *(Vice Chairman)*	#1-3-1, No. 18 Kaixiang Second Street Dadong District Shenyang Liaoning Province PRC	Chinese
Mr. SHI Yang (石陽)	#1-6-2, No. 39-1 Heping South Avenue Heping District Shenyang Liaoning Province PRC	Chinese
Mr. CHEN Zhaogui (陳招貴)	Room 301, Block 34 Donghui Xiaoqu Taiping Street Wenling Zhejiang Province PRC	Chinese
Mr. PAN Wenge (潘文戈)	#1-5-1, No. 371-1 Zhongshan Road Shenhe District Shenyang Liaoning Province PRC	Chinese
Ms. SUN Yi (孫奕)	No. 13 Longsheng Hutong Lvyuan District Changchun Jilin Province PRC	Chinese

Name	Residential Address	Nationality
Mr. HUANG Liangkuai (黃良快)	Room 502, No. 28 Xia Da Hai Bin Siming District Xiamen Fujian Province PRC	Chinese
Mr. ZHOU Zheren (周喆人)	Room 1002, No. 6 Lane 328 Xuchang Road Yangpu District Shanghai PRC	Chinese
Mr. WEN Zhaoye (溫兆曄)	No. 1111, Team 8 Tanjian Village Qingdun Town Tinghu District Yancheng Jiangsu Province PRC	Chinese

For more information on our Directors and Supervisors, please see “Directors, Supervisors and Senior Management” in this prospectus.

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor	China Merchants Securities (HK) Co., Limited 48/F. One Exchange Square No. 8 Connaught Place Central Hong Kong
Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers	China Merchants Securities (HK) Co., Limited 48/F. One Exchange Square No. 8 Connaught Place Central Hong Kong UOB Kay Hian (Hong Kong) Limited 15/F, China Building 29 Queen's Road Central Central Hong Kong
Joint Bookrunners and Joint Lead Managers	China Merchants Securities (HK) Co., Limited 48/F. One Exchange Square No. 8 Connaught Place Central Hong Kong UOB Kay Hian (Hong Kong) Limited 15/F, China Building 29 Queen's Road Central Central Hong Kong CCB International Capital Limited 12/F., CCB Tower 3 Connaught Road Central Central Hong Kong Sheng Yuan Securities Limited Suite 4303-05, 43/F, Tower 1, Times Square 1 Matheson Street Causeway Bay Hong Kong Haitong International Securities Company Limited 22/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong

Legal Advisors to the Bank	*As to Hong Kong and United States law:* Sullivan & Cromwell 28th Floor Nine Queen's Road Central Hong Kong
	As to PRC law: Tian Yuan Law Firm 10/F, China Pacific Insurance Plaza 28 Fengsheng Hutong Xicheng District Beijing, PRC
Legal Advisors to the Sole Sponsor, the Hong Kong Underwriters and the International Underwriters	*As to Hong Kong and United States law:* Freshfields Bruckhaus Deringer 11th Floor, Two Exchange Square Central Hong Kong
	As to PRC law: King & Wood Mallesons 20th Floor, East Tower World Financial Center 1 Dongsanhuan Zhonglu Chaoyang District Beijing, PRC
Reporting Accountants	KPMG *Certified Public Accountants* 8th Floor Prince's Building 10 Chater Road Hong Kong
Receiving Banks	Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong
	Bank of Communications Co., Ltd. Hong Kong Branch 20 Pedder Street Central, Hong Kong
	Standard Chartered Bank (Hong Kong) Limited 15th Floor Standard Chartered Tower 388 Kwun Tong Road Kwun Tong, Hong Kong

Registered Address and Address of Head Office	No. 109 Beizhan Road Shenhe District Shenyang Liaoning Province PRC
Principal Place of Business in Hong Kong	Units 08-09, 18/F, Office Tower Convention Plaza 1 Harbour Road Wanchai Hong Kong
Website Address	www.shengjingbank.com.cn *(The contents of the website do not form a part of this prospectus)*
Joint Company Secretaries	Mr. BAO Hong #1-3-1 No. 104-2 Nansijing Street Heping District Shenyang Liaoning Province PRC Ms. KWONG Yvonne Yin Ping *(FCIS, FCS)* 18/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Authorized Representatives	Ms. ZHANG Yukun #2-2-3 No. 2-1 Beiliujing Street Heping District Shenyang Liaoning Province PRC Mr. BAO Hong #1-3-1 No. 104-2 Nansijing Street Heping District Shenyang Liaoning Province PRC

Board Committees

Audit Committee
Mr. DING Jiming *(Chairman)*
Mr. YU Yongshun
Mr. LAU Chi Pang
Mr. LI Jianwei
Mr. LI Yuguo

Nomination and Remuneration Committee
Mr. SUN Hang *(Chairman)*
Ms. ZHANG Yukun
Mr. LAU Chi Pang
Mr. BA Junyu
Ms. YANG Yuhua

Strategic Development Committee
Ms. ZHANG Yukun *(Chairperson)*
Mr. LI Yuguo
Mr. ZHAO Weiqing
Ms. YANG Yuhua
Mr. LIU Xinfa
Mr. WANG Chunsheng
Mr. WU Gang

Related Party Transactions Control Committee
Mr. BA Junyu *(Chairman)*
Mr. WANG Chunsheng
Mr. SUN Hang
Mr. DING Jiming
Mr. LI Jianwei

Risk Control Committee
Mr. YU Yongshun *(Chairman)*
Mr. WANG Yigong
Mr. BA Junyu
Mr. ZHAO Weiqing
Mr. ZHAO Guangwei

Compliance Advisor	CMB International Capital Limited Room 1803-4, 18/F, Bank of America Tower 12 Harcourt Road Central Hong Kong
H Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong

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

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

OVERVIEW

China's Economy

China's economy has grown significantly since the Chinese government adopted the national policy of "reform and opening" in the late 1970s and initiated extensive economic reforms. These reforms originally focused on transforming China from a centrally planned economy to a market-oriented economy. Recently, particularly following China's accession to the World Trade Organization in 2001, such economic reforms have also aimed, among other things, at enhancing the competitiveness of Chinese enterprises. Due to these various reforms, China's nominal GDP grew at a CAGR of 13.7% from RMB34,090.3 billion to RMB56,884.5 billion between 2009 and 2013 according to the NBSC, notwithstanding the impact of the global economic recession. The Chinese government recently implemented a number of measures to stabilize the economic growth and adjust the economy structure, including adjusting loan to deposit ratios and deposit reserve ratios for commercial and other monetary polices. These measures have resulted in the high growth of the China economy to slow down to a growth in mid-to-high growth range contributed to a slowdown of China's economy. According to the NBSC, in 2013 China's nominal GDP growth rate was 9.5%, which was lower than the CAGR of 13.7% from 2009 to 2013. The table below sets out China's GDP, fixed asset investments and total import and export value, as well as the respective CAGRs, for each year from 2009 to 2013.

	Year ended December 31,					CAGR
	2009	2010	2011	2012	2013	(2009-2013)
Nominal GDP (in billions of RMB)	34,090	40,151	47,310	51,947	56,885	13.7%
GDP per capita (in RMB)	25,608	30,015	35,198	38,460	41,908	13.1%
Fixed asset investments (in billions of RMB)	22,460	25,168	31,149	37,469	44,707	18.8%
Total import and export value (in billions of USD)	2,208	2,974	3,642	3,867	4,160	17.2%

Source: NBSC

The rapid growth of China's economy has driven the expansion of China's banking industry. From 2009 to 2013, the total RMB-denominated loans and deposits of China's banking institutions increased at CAGRs of 15.8% and 15.0%, respectively. On a year-on-year basis, the total amount of RMB-denominated loans increased by 19.9%, 14.3%, 15.0%, and 14.1%, respectively, from 2009 to 2013. Although the growth of RMB-denominated loans has slowed down over the same period, the total amount of RMB-denominated loans kept growing at a relatively fast rate of more than 14%, which demonstrated the significant financing demand in China and the strength of the PRC economy. The table below sets out the total RMB-denominated loans and deposits, in each case, from 2009 to 2013, for China's banking institutions.

	Year ended December 31,					CAGR
	2009	2010	2011	2012	2013	(2009-2013)
Total RMB-denominated loans (in billions of RMB)	39,968	47,920	54,795	62,991	71,896	15.8%
Total RMB-denominated deposits (in billions of RMB)	59,774	71,824	80,937	91,755	104,385	15.0%

Source: PBOC

Economy of Liaoning Province

Since China's central government implemented the Strategy of Revitalization of the Old Industrial Bases in Northeast China in 2003, Northeast China has witnessed a rapid economic growth. From 2009 to 2013, Northeast China's nominal GDP grew at a CAGR of 15.0% from RMB3,107.8 billion to RMB5,444.2 billion. In August 2014, the State Council issued "Opinions on Certain Major Policies Recently Adopted in Support of Revitalizing Northeast China" which created new growth momentum for the all-around revitalization of Northeast China.

Liaoning Province is located in the southern part of Northeast China with both the Yellow Sea and the Bohai Sea adjacent to its south. It has rich mineral resources, including iron ore and petroleum, and has built up a number of key industries such as machinery and equipment, smelting and pressing of metals, food processing and petrochemicals. Liaoning Province is the largest province in Northeast China in terms of the scale of economy. Benefiting from a number of favorable policies, such the Strategy of Revitalization of Old Industrial Bases in Northeast China, Liaoning's 12th Five-Year Plan (遼寧省十二五規劃綱要) and Liaoning Coastal Economic Zone Development Plan (遼寧沿海經濟帶發展規劃), Liaoning Province has witnessed a rapid economic growth in recent years. Policies such as the Liaoning Coastal Economic Zone Development Plan (遼寧沿海經濟帶發展規劃) issued in 2009 and the New Industrialization Comprehensive Coordinated Reform Experiment Area of Shenyang Economic Zone (瀋陽經濟區新型工業化綜合配套改革試驗總體方案) issued in 2011 further promote the economic development of Liaoning Province. As part of the Bohai Economic Rim (a region in Northern China which, including Beijing, Tianjin, Hebei Province, Shandong Province and Liaoning Province, plays an important part in China's development strategy of coastal areas), Liaoning Province has experienced significant development and growth over the last decade. Liaoning Province's nominal GDP has increased from RMB1,521.2 billion in 2009 to RMB2,707.8 billion in 2013, representing a CAGR of approximately 15.5%. In 2013, Liaoning Province's GDP ranked first among the three provinces of Northeast China, accounting for 49.7% of the total GDP of the three provinces of Northeast China, and ranked 7th among all the provinces and municipalities in China.

The table below sets out Liaoning Province's nominal GDP and GDP per capita, fixed asset investments and total import and export value as well as the respective CAGRs from 2009 to 2013.

	Year ended December 31,					CAGR
	2009	2010	2011	2012	2013	(2009-2013)
Nominal GDP (in billions of RMB)	1,521	1,846	2,223	2,485	2,708	15.5%
GDP per capita (in RMB)	35,149	42,355	50,760	56,649	61,686	15.1%
Fixed asset investments (in billions of RMB)	1,229	1,604	1,773	2,184	2,511	19.6%
Total import and export value (in billions of USD)	63	81	96	104	114	16.0%

Source: NBSC

Alongside the economic development of the region, the banking industry in Liaoning Province has also experienced rapid growth. According to PBOC Shenyang Branch, as of December 31, 2013, the total RMB-denominated deposits of banking institutions in Liaoning Province reached RMB3,866.8 billion, representing an increase of 11.9% from December 31, 2012, while the total RMB-denominated loans in Liaoning Province reached RMB2,794.4 billion, representing an increase of 13.0% from December 31, 2012. The table below sets out the total RMB-denominated loans and deposits, and the respective CAGRs of banking institutions in Liaoning Province from 2009 to 2013.

	Year ended December 31, 2009	2010	2011	2012	2013	CAGR (2009-2013)
Total RMB-denominated deposits (in billions of RMB)	2,276	2,737	3,022	3,457	3,867	14.2%
Total RMB-denominated loans (in billions of RMB)	1,555	1,869	2,162	2,473	2,794	15.8%

Source: PBOC Shenyang Branch

CURRENT COMPETITIVE LANDSCAPE OF BANKING INDUSTRY IN CHINA AND IN LIAONING PROVINCE

China's banking institutions are generally categorized into six broad categories: Large Commercial Banks, Nationwide Joint-stock Commercial Banks, city commercial banks, rural financial institutions, foreign financial institutions and other banking institutions. The table below sets out the number of institutions, total assets, shareholders' equity and net profit of the different categories of banking institutions in China as of December 31, 2013.

	As of December 31, 2013						
		Total assets		Shareholders' equity		Net profit	
	Number of legal entity institutions	Total amount	Market share	Total amount	Market share	Total amount	Market share
	(in billions of RMB, except number of institutions and percentages)						
Large Commercial Banks	5	65,601	43.3%	4,439	43.6%	838	48.1%
Nationwide Joint-stock Commercial Banks	12	26,936	17.8%	1,592	15.7%	295	16.9%
City commercial banks	145	15,178	10.0%	997	9.8%	164	9.4%
Rural financial institutions(1)	2,393	18,349	12.1%	1,233	12.1%	196	11.2%
Foreign financial institutions(2)	42	2,563	1.8%	273	2.7%	14	0.8%
Other banking institutions(3)	1,352	22,728	15.0%	1,638	16.1%	237	13.6%
Total	3,949	151,355	100.0%	10,172	100.0%	1,744	100.0%

Source: CBRC 2013 annual report

(1) Consist of rural credit cooperatives, rural commercial banks and rural cooperative banks.

(2) Consist of foreign bank branches, foreign-owned banks, Sino-foreign joint-ventured banks and foreign-owned finance companies and their branches and subsidiaries.

(3) Consist of policy banks, China Development Bank, the Postal Savings Bank of China and other non-bank financial institutions, including banking asset management companies, finance companies affiliated with corporate enterprises, consumer finance companies, trust companies, financial leasing companies, money brokerage firms, auto financing companies, village and township banks, lending companies and rural mutual cooperatives.

The table below sets out certain information relating to the total assets, shareholders' equity and net profit of different categories of banking institutions in Liaoning Province as of December 31, 2013.

	As of December 31, 2013						
		Total assets		Shareholders' equity		Net profit	
	Number of institutions[1]	Total amount	Market share	Total amount	Market share	Total amount	Market share
	(in billions of RMB, except number of institutions and percentages)						
Large Commercial Banks	5	1,819	35.7%	36	17.9%	24	36.4%
Nationwide Joint-stock Commercial Banks	11	858	16.8%	19	9.5%	14	21.2%
City commercial banks[2]	15	1,120	22.0%	88	43.8%	13	19.7%
Rural financial institutions	2	450	8.8%	35	17.4%	4	6.6%
Foreign financial institutions	12	50	1.0%	5	2.5%	0.7	1.0%
Other banking institutions	10	799	15.7%	18	8.9%	10	15.1%
Total	55	5,096	100.0%	201	100.0%	65.7	100.0%

Sources: CBRC Liaoning Bureau, CBRC Dalian Bureau

(1) Including institutions incorporated in Liaoning Province or with a provincial-level branch in Liaoning Province.

(2) Our Bank is a city commercial bank and one of 15 city commercial banks in Liaoning Province.

The table below sets out certain key performance indicators and financial ratios of the Bank and the market average of currently listed PRC city commercial banks as of the dates or for the periods indicated below.

	Year ended or as of December 31, 2013		Six months ended or as of June 30, 2014	
	Shengjing Bank	Market Average[1]	Shengjing Bank	Market Average[1]
Net interest margin[2]	2.39%	2.61%	2.31%	2.37%
Net interest spread[3]	2.17%	2.44%	2.07%	2.36%
Non-performing loans ratio[4]	0.46%	0.70%	0.44%	0.78%
Allowance to non-performing loans ratio[5]	306.53%	355.10%	343.96%	301.30%

Sources: The Bank, and annual reports and prospectuses of currently listed PRC city commercial banks

(1) The arithmetic mean of the ratios of the currently listed PRC city commercial banks.

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

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

(4) Calculated by dividing total non-performing loans by total loans and advances to customers.

(5) Calculated by dividing the allowance for impairment losses by total non-performing loans.

As of December 31, 2013, our Bank's total assets and net profit were approximately RMB355.4 billion and RMB4.9 billion, respectively. According to CBRC Liaoning Bureau and annual reports of other banks, we were the largest city commercial bank in Northeast China in terms of total assets as of December 31, 2013 and net profit for the year ended December 31, 2013. As of the same date and for the same period, our total assets and net profit respectively account for 7.0% and 7.3% of the total assets and net profit in Liaoning Province's banking industry, and 31.7% and 37.2% of the total assets and net profits of city commercial banks in Liaoning Province.

As of December 31, 2011, 2012 and 2013, our loans to customers were RMB98,372 million, RMB114,131 million and RMB133,437 million, respectively. According to the PBOC, as of the same dates our RMB-denominated loans to customers accounted for 13.6%, 13.4% and 13.5%, respectively, of the total RMB-denominated loans to customers of all commercial banks in Shenyang.

As of December 31, 2011, 2012 and 2013, our total customer deposits were RMB171,474 million, RMB207,987 million and RMB262,913 million, respectively. According to the PBOC, as of the same dates our total RMB-denominated customer deposits accounted for 14.8%, 14.5% and 13.7%, respectively, of the total RMB-denominated customer deposits of all commercial banks in Shenyang; and we ranked first in Shenyang in terms of the annual increase in personal deposits. According to the PBOC, as of December 31, 2011, 2012 and 2013, we ranked first in Shenyang for three consecutive years in terms of RMB-denominated corporate deposits, accounting for 17.4%, 15.3% and 14.1%, respectively, of total corporate deposits of all commercial banks in Shenyang. According to the PBOC, as of December 31, 2013, our total customer deposits in Beijing Branch and Tianjin Branch ranked first and second among all city commercial banks the headquarters of which are not in the respective cities.

INDUSTRY TRENDS

Financial Disintermediation Further Promoting the Development of Fee- and Commission-based Business

In recent years, there has been a trend of financial disintermediation, with depositors directing funds away from savings banks and other intermediary financial institutions to direct investments. Financial disintermediation, which has been primarily driven by the lower deposit rates from inflation rates, the evolvement of financial markets, the diversification, integration and personalization of customer demand, and adjustments in social financing structure has affected the deposit levels of commercial banks, which in turn affected the funds that could otherwise be used in the lending business to generate interest income. At the same time, financial disintermediation has also led to a decrease in the borrowing demand of enterprises, in particular large enterprises.

Enhanced Industry Fundamentals

Since 2003, the transformation of State-owned commercial banks into joint-stock commercial banks has had a profound impact on the reform and development of the banking industry in China. Since then, China's banking sector has witnessed significant improvement in the areas of corporate governance, risk management, capital base, profitability, branding and market recognition. From 2009 to 2013, according to CBRC 2013 annual report, the total assets of banking institutions in China increased by RMB71,840.1 billion, from RMB79,514.6 billion to RMB151,354.7 billion, representing a CAGR of 17.5%, while total shareholders' equity increased by RMB5,727.5 billion, from RMB4,444.1 billion to RMB10,171.6 billion, representing a CAGR of 23.0%. The asset quality of commercial banks in China also improved significantly. During the same period, the non-performing loan ratio of the commercial banks in China decreased from 1.6% to 1.0%.

Strengthened Regulation and Supervision

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

Following the global financial crisis in 2008, the CBRC and other supervisory institutions in China have promulgated regulatory measures to strengthen the regulation and supervision of the banking industry. These measures primarily include:

- *Prudent supervision*. The CBRC has established rules and regulations to guide commercial banks to further improve their risk management systems and establish prudent measures to prevent excessive exposure to high-risk markets and industries. These regulatory measures cover a wide range of potential risks including credit, market, operational and liquidity risks. As part of its prudent supervision, the CBRC has established a series of measures and guidelines in accordance with the development of the Basel Accords to strengthen commercial banks' capital management capabilities. These measures and guidelines relate to, among other things, capital adequacy ratio disclosure, capital measurement and risk exposure calculations. Furthermore, the PBOC issued certain policies to enhance the effectiveness of capital supervision and improve the risk management capability of commercial banks.

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

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

- *Improvement of corporate governance*. The CBRC has required banks to establish corporate governance structures, such as a board of directors comprising independent directors, an audit committee, a remuneration and nomination committee and other special committees, as well as a supervisory board comprising outside supervisors, a nomination committee, a supervising committee and other special committees. Furthermore, the CBRC also requires PRC banking institutions to establish an independent internal audit function which has clear policies and procedures.

- *Enhanced regulation on wealth management services*. Since 2005, the CBRC has issued measures to regulate personal wealth management services provided by PRC commercial banks. Such measures required commercial banks to file a report with or obtain approval from CBRC when the banks are engaged in certain personal wealth management businesses. The measures also limit the total amount of wealth management funds a bank may invest in non-standard debt assets, including trust beneficiary rights.

- *Enhanced regulation on online finance*. In March 2014, the PBOC suspended payments using Quick Response (QR) codes and virtual credit cards, both of which are third-party online payment platforms. According to the China Financial Stability Report 2014 issued by the PBOC in April 2014, it is expected that the PBOC will enhance regulation on online finance to promote its healthy growth.

See "Supervision and Regulation" for details about regulatory measures of the PRC banking industry.

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

City commercial banks are usually established upon their predecessor urban credit cooperatives and incorporated under the PRC Company Law and the PRC Commercial Banking Law with branches at the municipality level or above as approved by the CBRC and other regulators. In 1995, the State Council decided to restructure urban credit cooperatives into city cooperative banks, which since 1997 were referred to as city commercial banks. According to the CBRC 2013 annual report, as of December 31, 2013, there were 145 city commercial banks in China. City commercial banks have been playing an active role in maintaining regional financial stability, promoting market competition, facilitating the development of financial services and easing funding pressures for SMEs.

As opposed to Large Commercial Banks and Nationwide Joint-stock Commercial Banks, city commercial banks are generally focused on providing banking services to institutions and individuals in certain specified geographic areas. From 2005 to early 2011, city commercial banks were, subject to the CBRC's approval, also permitted to expand and establish cross-regional branches operating in other provinces. However, since 2011, the CBRC has temporarily suspended the approval of new applications from banks seeking to expand in this way.

Leveraging their understanding of local markets and relationships with local customers, city commercial banks are generally well-positioned to capture opportunities and trends in local areas. From 2009 to 2013, the key financial indicators and performance of city commercial banks have continued to improve and the rapid development of city commercial banks has been a key reason contributing to the overall growth of China's banking industry. According to the CBRC, the total assets of city commercial banks as a percentage of the total assets of the banking institutions in China, increased from 7.2%, or RMB5,680 billion, as of December 31, 2009, to 10.0%, or RMB15,178 billion, as of December 31, 2013, representing a CAGR of 27.9%. Profits of city commercial banks as a percentage of the profits of the banking institutions in China, increased from 7.4%, or RMB49.7 billion, as of December 31, 2009, to 9.4%, or RMB164.1 billion, as of December 31, 2013, representing a CAGR of 34.8%. The growth of both the total assets and profits is higher than that of all other PRC banking institutions. During the same period, the overall non-performing loan ratio of city commercial banks decreased from 1.3% to 0.9%. The profitability and asset quality of city commercial banks has improved significantly.

The table below sets out certain information relating to city commercial banks in China for each year from 2009 to 2013:

	Year ended/as of December 31,				
	2009	2010	2011	2012	2013
	(in billions of RMB, except percentage)				
Total assets	5,680	7,853	9,985	12,347	15,178
Liabilities	5,321	7,370	9,320	11,540	14,180
Shareholders' equity	359	482	664	808	997
Profit after tax	50	77	108	137	164
Non-performance loan ratio	1.3%	0.9%	0.8%	0.8%	0.9%

Sources: CBRC 2013 annual report; CBRC website

In recent years, PRC city commercial banks have experienced rapid development. Certain city commercial banks have been restructured, introduced strategic investors or sought initial public offerings in order to strengthen their capital base. For example, in 2007, Bank of Nanjing Co., Ltd. and Bank of Beijing Co., Ltd. were both listed on the Shanghai Stock Exchange, and Bank of Ningbo Co., Ltd. was listed on the Shenzhen Stock Exchange; in 2013, Bank of Chongqing Co., Ltd. and Huishang Bank Corporation Limited were listed on the Hong Kong Stock Exchange; and in March 2014 Harbin Bank Co., Ltd. was listed on the Hong Kong Stock Exchange. In addition, some city commercial banks have, in accordance with regulations issued by the CBRC, begun developing diversified operation business models, such as establishing consumer finance companies and financial leasing companies, and investing in equity interests in insurance companies.

Increasing Emphasis on Small and Micro Enterprise Banking

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

Since 2005, the PBOC and the CBRC have issued a series of policies and measures to promote financing to SMEs, in particular to small and micro enterprises. Set out below is a summary of the key measures that have been issued:

- In May 2011, the CBRC issued the Notice on Supporting Commercial Banks in Further Improving Financial Services for Small Enterprises (《關於支持商業銀行進一步改進小企業金融服務的通知》), which encouraged commercial banks to issue financial bonds for the purpose of funding loans to small enterprises (including what are currently referred to as small and micro enterprises). Furthermore, the CBRC adopted specific assessment procedures for loans made to small enterprises and increased tolerance for the non-performing loans ratio of small enterprises.

- In October 2011, the CBRC issued the Supplementary Notice on Supporting Commercial Banks in Further Improving Financial Services for Small Enterprises and Micro Enterprises (《關於支持商業銀行進一步改進小型微型企業金融服務的補充通知》), which provided more specific regulations and incentive policies such as: (i) giving further encouragement and support to commercial banks to expand their coverage of financial services for small and micro enterprises; (ii) actively supporting the development of small and micro enterprises in technology industries through the creation of innovative systems, products and services; (iii) applying a preferential risk weight of 75% in a risk-weighted approach to loans to small and micro enterprises; (iv) applying preferential capital regulatory requirements in respect of qualified loans to small and micro enterprises; and (v) applying a more tolerant non-performing loans ratio to loans to small and micro enterprises which are qualified under internal ratings. Furthermore, commercial banks were no longer allowed to charge small and micro enterprises any commitment fee or fund management fee in connection with loans or products offered to them, while stringent restrictions were imposed on the charging of financial advisory fees and consultation fees to small and micro enterprises.

- In March 2013, the CBRC issued the Notice on Advancing the Financial Services for Small Enterprises and Micro Enterprises (《關於深化小微企業金融服務的意見》), which further encouraged and incentivized commercial banks to improve their quality of service, innovate financial products, expand channels of financing, provide integrated financial services to small and micro enterprises and expand their financial service network coverage to less developed towns, as well as wholesale markets and trade fairs where small and micro enterprises concentrate. This notice also reinforced the policy that permitted commercial banks to apply to establish several sub-branches in the same city and removed the restriction that banks need a minimum half-year period between two consecutive applications, provided that the number of small and micro enterprises loan customers of such bank and the average balance of loans granted to such customers at the end of each of the previous six months reached certain levels as a proportion of all customers of that bank and the bank's total loan balance (in principle, the relevant levels were set at 70% for eastern coastal provinces and municipalities with independent planning status and 60% for other provinces).

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

- On July 24, 2014, the CBRC published the Notice of Improving and Innovating the Loan Services for Small and Micro Enterprises and Enhancing Financial Service Level to Small and Micro Enterprises (《關於完善和創新小微企業貸款服務提高中小微企業金融服務水平的通知》) to encourage banking institutions to reasonably set up maturity for working capital loans to small and micro enterprises, develop working capital loan products for small and micro enterprises, and proactively innovate the service modes for working capital loan products for small and micro enterprises. For certain qualified small and micro enterprises, upon application and subject to the banks' review and approval, the banking institutions should enter into new loan contracts before the working capital loans become due. The notice also requests banks to fully implement loan classification policies and enforce risk management of small and micro enterprise loans to enhance the service level of such loan services.

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

As a result of the above, small and micro enterprise banking has grown rapidly in recent years. Loans issued to small and micro enterprises reached RMB13.2 trillion as of December 31, 2013, representing an increase of 14.2% from December 31, 2012, and accounted for 29.4% of all corporate loans made by China's banking institutions.

Increasing Demand for Personal Finance

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

	Year ended December 31,					**CAGR**
	2009	**2010**	**2011**	**2012**	**2013**	**(2009-2013)**
	(in billions of RMB, except percentage)					
Total domestic RMB-denominated personal loans	8,179	11,254	13,601	16,130	19,850	24.8%
As a percentage of total domestic RMB-denominated loans	20.5%	23.5%	24.9%	25.7%	27.7%	N/A

Source: PBOC

In addition to the traditional personal finance business, the market for wealth management services has emerged over the past few years as a result of the rapid increase in household disposable income and started to offer customized and professional services, such as asset management and wealth management services, to mid-to high-end customers.

Following the establishment of private banking businesses in China by certain foreign-owned banks, China's commercial banks have also started to create their own private banking businesses in an attempt to increase their market penetration in private banking services to high net worth individuals in China.

Increasing Importance of Electronic Banking Services

The continuing development of Internet technology and banking information systems in China has enabled Chinese commercial banks to develop new types of self-service banking products and services through electronic banking systems such as internet and phone banking. By integrating their physical and electronic networks and services, banks can offer customers more convenient traditional banking services as well as more sophisticated and innovative products. Electronic banking has opened broad new channels for Chinese commercial banks to expand the scope and coverage of their banking businesses. According to the 2013 China Financial Certification Authority, among active users, approximately 32.4% of retail banking transactions and 63.7% of corporate banking transactions in China in 2013 were completed through electronic channels.

Further Expansion of Fee- and Commission-based Business

As the PRC banking industry becomes increasingly competitive, PRC commercial banks have increased their efforts to provide diversified financial products and services, especially fee- and commission-based products and services.

Historically, commercial banks in China were restricted in their ability to provide fee- and commission-based products and services. Since 2001, however, the Chinese government has issued regulations permitting banks to charge for certain fee- and commission-based products and services. See "Supervision and Regulation – Pricing of Products and Services". The contribution from net fee and commission income as a percentage of total profits of PRC banks has increased from 12.0% in 2009 to 15.1% in 2013. It is expected to further increase as domestic banks continue to expand their fee- and commission-based product and service offerings to meet the demand of increasingly sophisticated corporate and personal customers.

Deepening of Interest Rate Liberalization

Interest rate liberalization is one of the core parts of economic reform. However, interest rate liberalization has not been fully achieved. Interest rates on deposits and loans in China were historically set by and subject to restrictions established by the PBOC. Since 1996, as part of the overall reform of the banking system, the PBOC has implemented a series of initiatives to gradually promote the liberalization of interest rates, including removing the interest rate restrictions affecting the inter-bank money market, government and policy bank bonds and deposits and loans in foreign currencies, as well as lowering the minimum interest rate for RMB-denominated loans and lifting the interest rate limit on RMB-denominated deposits. On June 8, 2012 and July 6, 2012, the benchmark interest rates for RMB-denominated loans and deposits and the corresponding permitted floating range of interest rates were adjusted twice. The changes allowed banking institutions in China to set minimum interest rates for RMB-denominated loans at 70% of the PBOC benchmark rate and the maximum interest rates for RMB-denominated deposits at 110% of the PBOC benchmark rate. With effect from November 22, 2014, the PBOC lowered the benchmark interest rates on loans and deposits and raised the maximum interest rates for deposits from 110% to 120% of the benchmark interest rate. To deepen the interest rate liberalization, the PBOC further liberalized the control over the lending rate. From July 20, 2013, banking institutions in China are no longer bound by the minimum interest rate threshold for RMB-denominated loans of 70% of the PBOC benchmark rate when setting interest rates on loans they offer. Instead, each banking institution can set the interest rate level at its own discretion (the permitted range of interest rates for personal residential mortgage loans is not adjusted, which still applies the existing housing credit policy). See "Supervision and Regulation – Pricing of Products and Services".

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

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

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

OVERVIEW

The banking industry in the PRC is highly regulated. The principal regulatory authorities in the PRC banking industry include the CBRC, the PBOC and the MOF. The CBRC is responsible for supervising and regulating banking institutions, and the PBOC, as the central bank of the PRC, is responsible for formulating and implementing monetary policies. The principal laws and regulations relating to the PRC banking industry are the PRC Commercial Banking Law, the PRC PBOC Law and the PRC Banking Supervision and Regulatory Law, and the rules and regulations established thereunder.

HISTORY AND DEVELOPMENT OF THE REGULATORY FRAMEWORK

Established on December 1, 1948, the PBOC was initially the primary regulator of the financial industry in the PRC. In January 1986, the State Council issued the Interim Regulations of the PRC on the Supervision of Banks (《中華人民共和國銀行管理暫行條例》), which explicitly provided, for the first time, that the PBOC was the central bank of the PRC and the regulatory authority for the PRC financial industry.

The current regulatory framework of the PRC banking industry began to emerge in 1995 when the PRC PBOC Law and the PRC Commercial Banking Law were issued. The PRC PBOC Law, which was issued in March 1995, provided for the scope of responsibilities and the organizational structure of the PBOC, and authorized the PBOC to administer the Renminbi, implement monetary policies and regulate and supervise the PRC financial industry. The PRC Commercial Banking Law was enacted in May 1995 and set out the fundamental principles of operations for PRC commercial banks.

Since then, the regulatory regime of the PRC banking industry has undergone further significant reform and development. The CBRC was established in April 2003 and took over from the PBOC its role as the primary regulator of the PRC banking industry. The CBRC was mandated to implement reforms, minimize overall risks, promote stability and development and enhance the international competitiveness of the PRC banking industry. In December 2003, the PRC Commercial Banking Law and the PRC PBOC Law were amended and, on February 1, 2004, the PRC Banking Supervision and Regulatory Law came into effect. The PRC Banking Supervision and Regulatory Law sets out the regulatory functions and responsibilities of the CBRC.

PRINCIPAL REGULATORS

CBRC

Functions and Powers

The CBRC is the principal regulatory authority in the PRC responsible for the supervision and regulation of banking institutions operating in the PRC, including commercial banks, urban credit cooperatives, rural credit cooperatives, other deposit-taking financial institutions and policy banks, as well as certain non-bank financial institutions. The CBRC is also responsible for the supervision and regulation of the entities established by domestic financial institutions outside the PRC and the overseas operations of the above-mentioned banking and non-banking institutions. According to the PRC Banking Supervision and Regulatory Law and relevant regulations, the CBRC's primary regulatory responsibilities include:

- formulating and issuing regulations and rules governing banking institutions and their activities;
- examining and approving the establishment, change and termination of banking institutions and their scope of business, as well as granting banking licenses to commercial banks and their branches;
- regulating the business activities of banking institutions, including their products and services;
- approving and overseeing qualification requirements for directors and senior management of banking institutions;
- setting prudential guidelines and standards for risk management, internal control, capital adequacy, asset quality, allowance for impairment losses, risk concentration, related party transactions and asset liquidity requirements for banking institutions;
- conducting on-site examinations and off-site surveillance of the business activities and risk levels of banking institutions;
- establishing emergency system with relevant authorities and formulating emergency plans;
- imposing corrective and punitive measures for violations of applicable banking regulations;
- preparing and publishing statistics and financial statements of national banking institutions; and
- taking over or procuring the restructuring of a banking institution which may materially impact the rights and interests of depositors and other customers when there is, or is likely to be, a credit crisis.

Examination and Supervision

The CBRC, through its headquarters in Beijing and its bureaus throughout the PRC, monitors the operations of banks and their branches through on-site examinations and off-site surveillance. On-site examinations generally include inspecting a bank's business premises and electronic data systems, interviewing its employees, senior management and directors for an explanation of significant issues relating to its operations and risk management, as well as reviewing relevant documents and materials maintained by the bank. Off-site surveillance generally includes reviewing business reports, financial statements and other reports regularly submitted by banks to the CBRC.

If a banking institution is not in compliance with an applicable banking regulation, the CBRC is authorized to impose corrective and punitive measures, including imposing fines, ordering the suspension of certain business activities, withholding the approval for engaging in new businesses, imposing restrictions on dividends and other forms of distributions and asset transfers, and suspending the opening of new branches. In extreme cases or when a commercial bank fails to take corrective action within the time period specified by the CBRC, the CBRC may order the banking institution to suspend operations and may revoke its operating-business license. When there is, or is likely to be, a credit crisis or failure within a banking institution, which may materially impact the rights and interests of depositors and other customers, the CBRC may 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. According to the PRC PBOC Law and relevant regulations, the PBOC is empowered to mainly perform the following duties:

- issue and implement orders and regulations in relation to its duties;
- formulate and implement monetary policy in accordance with laws;
- issue Renminbi and administer its circulation;
- regulate the inter-bank money market and the inter-bank bond market;
- implement foreign exchange controls and regulate the inter-bank foreign exchange market;
- regulate the gold market;
- hold, administer and manage state reserves of foreign exchange and gold;
- manage the national treasury;

- safeguard the normal operation of payment and clearing systems;

- guide and lead the financial industry in its anti-money laundering activities and take responsibility for monitoring capital in respect of anti-money laundering; and

- take responsibility for financial industry statistics, surveys, analyses and forecasts.

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

MOF

The MOF, a ministry under the State Council, is responsible for state finance, taxation, accounting, the management of state-owned financial assets, etc. The MOF regulates the performance review and remuneration mechanism of senior management of state-owned banks, and banks' compliance with the China Accounting Standards for Business Enterprises (《企業會計準則》) and the Financial Rules for Financial Enterprise (《金融企業財務規則》). The MOF's primary responsibilities include:

- issuing and implementing financial and taxation strategies, plans, policies and reform measures;

- drafting laws, regulations and rules concerning fiscal, financial and accounting management;

- managing state-owned financial assets, administering the appraisal of state-owned assets and participating in drafting rules governing state-owned financial assets management; and

- supervising the implementation of financial and tax rules and policies, reporting critical issues in the management of fiscal revenue and expenditure and managing the financial supervision commissioners' office.

Other Regulatory Authorities

In addition to the above regulators, commercial banks in the PRC are also subject to the supervision and regulation by other regulatory authorities, including the SAFE, the SAIC, the CSRC, the CIRC, the NAO and the SAT.

LICENSING REQUIREMENTS

Basic Requirements

Currently, the establishment of a city commercial bank requires the CBRC's approval and issuance of an operating license. Pursuant to the current regulatory requirements, in general, the CBRC will not approve an application to establish a city commercial bank unless certain conditions are satisfied, including that:

- the articles of association are in compliance with the relevant requirements of the PRC Company Law and the PRC Commercial Banking Law;
- the minimum required registered capital under the PRC Commercial Banking Law, which is RMB100 million for a city commercial bank, is fully paid;
- the directors and senior management possess the requisite qualifications and the practitioners are qualified persons who are familiar with the banking business;
- the organizational structure and the management system are sound and effective;
- the corporate governance structure is well-established and the risk management system is sound;
- the business premises, safety and security measures and other facilities satisfy the needs of the business operation; and
- the information technology structure which satisfies the needs of the business operation has been set up, the information technology system supporting the business operation is necessary, safe and in compliance 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 the CBRC or its branches' approval to undertake significant changes, including:

- establishment of a branch or sub-branch;
- change of name of headquarters or a branch or sub-branch;
- change of registered capital;
- change of domicile of headquarters;
- change of business scope;

- change of form of organization;
- change of shareholders holding 5% or more of the bank's total capital or shares;
- investments in less than 5% of the equity interest in the bank by an enterprise located outside the province, autonomous region or directly administrated municipality where the bank is registered;
- amendments to the articles of association;
- establishment or cease of a branch or sub-branch;
- merger or spin-off; and
- dissolution and bankruptcy.

Establishment of Branches

Branches within the bank's residence province (autonomous regions, directly administered municipalities)

To establish a local branch, a city commercial bank must apply to the relevant local offices of the CBRC in its residence province (autonomous regions, directly administered municipalities) where it is registered for approval and issuance of finance license. On April 16, 2009, the CBRC issued the Opinions on Adjusting the Licensing Policies for the Establishment of Branch Outlets by Small- and Medium-Sized Commercial Banks (for Trial Implementation) (《關於中小商業銀行分支機構市場准入政策的調整意見(試行)》). According to this notice:

- the establishment of branches and sub-branches by city commercial banks is no longer subject to working capital requirement; and
- the number of branches and sub-branches of a city commercial bank within the province (autonomous region or directly administered municipality) where it is registered is no longer subject to any limit.

Branches outside the bank's residence province (autonomous region, directly administered municipality)

With regard to the establishment of branches by a city commercial bank outside its residence province (autonomous region or directly administered municipality), the approval from the CBRC is required. The aforementioned Opinions provide for a "Three-Step" principle for establishing branches by a city commercial bank outside its residence province (autonomous region or directly administered municipality), i.e., establishing branches within the province where it is registered before other provinces, establishing branches within the local economic region before other economic regions, and, thereafter establishing branches throughout the country. Since 2011, the CBRC has temporarily suspended the approval of new applications from city commercial banks seeking to expand and establish branches outside their residence provinces. Although we may still continue to utilize our existing licenses for expanding operations in Beijing, Tianjin, Shanghai and Changchun to the extent permitted by government policies, our application to establish new branches outside Liaoning Province other than in Beijing, Tianjin, Shanghai and Changchun will remain subject to CBRC's temporary suspension and further changes in relevant policies. See "Risk Factors – Risks Relating to Our Business – We are subject to risks of having our business concentrated in Northeast China and the uncertainties relating to government policies to promote the development of Northeast China" and "Risk Factors – Risks Relating to Our Business – We cannot assure you that we will be successful in expanding our business lines as planned, and the expansion of the range of our products and services may also expose us to new risks". Our application to establish new sub-branches in Beijing, Tianjin, Shanghai and Changchun and new branches in Liaoning Province will not be affected by the CBRC's temporary suspension policy.

Scope of Business

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

- taking deposits from the public;
- extending short-term, medium-term and long-term loans;
- effecting domestic and overseas payment settlements;
- accepting and discounting instruments;
- issuing financial bonds;
- acting as the issuing agent, cashing agent and underwriter of government bonds;
- trading government bonds and financial bonds;
- engaging in inter-bank lending;
- trading foreign exchange as principal or agent;
- engaging in bank card business;
- providing letters of credit and guarantee services;
- collecting and making payment as agents and acting as insurance agents;
- providing safe deposit box service; and
- other businesses approved by the banking regulatory authorities under the State Council.

Commercial banks in the PRC are required to set forth their scope of business in their articles of association and submit their articles of association to the CBRC or its branches for approval. Subject to approval by the PBOC and the SAFE, commercial banks may engage in settlement and sales of foreign exchange.

REGULATION OF PRINCIPAL COMMERCIAL BANKING ACTIVITIES

Lending

To control risks relating to the extension of credit, PRC banking regulations require commercial banks to: (i) establish a strict and centralized credit risk management system; (ii) set up standard operation procedures for each step in the extension of credit process, including conducting due diligence investigations before granting credit facilities, monitoring borrowers' repayment ability and preparing credit assessment reports on a regular basis; and (iii) appoint qualified risk control personnel.

The CBRC has also issued guidelines and measures to control risks in connection with related party loans. See "– Corporate Governance and Internal Controls – Transactions with Related Parties".

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

- under the Guidelines on the Mergers and Acquisitions Loan Risk Management for Commercial Banks (《商業銀行併購貸款風險管理指引》) issued by the CBRC on December 6, 2008, commercial banks are required to establish and implement business procedures and internal control systems and report the same to the CBRC. A commercial bank may not finance mergers and acquisitions unless it has, amongst others: (i) a sound risk management system and an effective internal control system; (ii) specific allowance adequacy ratio for loan impairment loss of no less than 100%; (iii) a capital adequacy ratio of no less than 10%; (iv) a general reserve balance of no less than 1% of the loan balance as of the same date; and (v) a professional team responsible for due diligence and risk assessment of merger and acquisition loans. These guidelines also set out requirements in relation to assessment and control of risks associated with mergers and acquisitions, such as overall strategic risk, legal and compliance risk, integration risk, operational risk and financial risk;

- under the Interim Measures for the Administration of Fixed Asset Loans (《固定資產貸款管理暫行辦法》) issued by the CBRC on July 23, 2009, commercial banks are required to improve their internal control system, manage the whole lending process, establish a risk management system for fixed asset loans and an effective mechanism for balancing different positions. Commercial banks are also required to strengthen the management of the use of loans and improve the management of loan extension and repayment. In addition, commercial banks are required to agree with borrowers on contractual terms that are material to controlling the loan risks, and establish a loan quality monitoring system and a loan risk alert system; and

- the Interim Measures for the Administration of Working Capital Loans (《流動資金貸款管理暫行辦法》), implemented by the CBRC on February 12, 2010, requires commercial banks to establish effective internal control and risk management systems in order to monitor the use of working capital loans and get full access to customer information. Commercial banks are required to take reasonable and prudent measures to assess the client's actual borrowing need based on its business operation and the amount of loans granted cannot exceed its actual demand based on its business operation. Commercial banks are also required to set out written rules to ensure that working capital loans are used for legitimate purposes. In particular, these loans may not be used for investments in fixed assets, equity investments or for other purposes prohibited by the state.

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

- the Guidelines on the Risk Management of Risks of Credits Granted by Commercial Banks to Group Borrowers (《商業銀行集團客戶授信業務風險管理指引》), which require commercial banks to establish a risk management system to control the credits granted to group borrowers and file such system with the CBRC. If the credit balance to a single group borrower of a commercial bank exceeds 15% of its net capital, the commercial bank is required to adopt measures, including syndicated loans, joint loans and transfer of loans, to diversify risks. In line with its prudential supervision requirement, the CBRC may lower the credit balance ratio of a particular commercial bank to a single group borrower;

- the Interim Measures for the Administration of Personal Loans (《個人貸款管理暫行辦法》), which require commercial banks to establish an effective full-process management mechanism and risk management system in connection with the granting of personal loans and set out certain required conditions for personal loan applications, and require that the use of personal loans should comply with relevant laws and policies. Commercial banks should specify the purpose for such personal loans and may not extend personal loans with no designated purpose;

- the Guidelines on Project Financing Business (《項目融資業務指引》), which require banking institutions to establish a sound operation flow and risk management system. Banking institutions are required to fully identify and evaluate risks associated with the project construction and operation period, including policy risk, financing risk, completion risk, product market risk, over-budget risk, raw material risk, operational risk, exchange rate risk, environmental risk and other related risks. Banking institutions are also required to focus on borrowers' repayment capability so that they can evaluate risks associated with technical and financial feasibility as well as repayment sources. In addition, banking institutions must ensure that borrowers set up a designated account to receive all revenues from projects, and must monitor such account and take actions in case of unusual movements;

- the Measures for the Administration of Peasant Household Loans (《農戶貸款管理辦法》), which clarify the scope of peasant household loans and encourage banking institutions to develop the business, formulate relevant operational strategies and enhance risk management capabilities in relation to such loans;

- the Administrative Measures on Automobile Loans (《汽車貸款管理辦法》), which require commercial banks to establish a credit rating system and monitoring system in connection with automobile loans. These regulations also set out certain required conditions in relation to applications for such automobile loans. In addition, the regulations state that the amount of automobile loans shall not, in each case, exceed 80% of the price of vehicles for self-use purpose, 70% of the price of vehicles for commercial purpose and 50% of the price of second-hand vehicles. Commercial banks are also required to ensure that borrowers provide pledges over their vehicles or other types of guarantees for automobile loans;

- the Guidelines on the Management of Risks of Real Estate Loans Granted by Commercial Banks (《商業銀行房地產貸款風險管理指引》), which require commercial banks to establish standards for the review and approval of real estate loans (including land reservation loans, estate development loans, personal residential housing loans, and commercial housing loans) and to develop risk management systems and internal control for the analysis of market risk, legal risk, and operational risk in the real estate loan market. Commercial banks are not allowed to grant real estate development loans to borrowers without land use right certificates and relevant permissions. The CBRC and its branches conduct periodic inspections of the implementation of the guidelines;

- the Notice of the State Council on Firmly Curbing Excessive Rise of Housing Prices in Some Cities (《國務院關於堅決遏制部分城市房價過快上漲的通知》), which, among other things, requires commercial banks to strengthen the pre-lending examination and post-lending management of loans to real estate development enterprises, and prohibits commercial banks from granting new development loans to real estate developers which have idle land or which are involved in land speculation activities. The Notice of the General Office of the State Council on Further Working on the Market Regulation and Control of Real Estate Market (《國務院辦公廳關於繼續做好房地產市場調控工作的通知》) further prohibits commercial banks from making loans for new development projects to land developers which are engaged in illegal activities such as land hoarding and price speculation;

- the Notice of the PBOC and the CBRC on 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, among other things, encourages banking institutions to support those shanty town reconstruction and affordable housing projects that meet conditions for credit while keeping risks at a controllable level and maintaining sustainable financial standing. The regulation provides that the maturity of loans to public rental housing and shanty town reconstruction may be extended to no more than 25 years. Subject to the need of risk prevention, banking institutions are required to allocate their credit resources reasonably and to support those real estate enterprises with sound qualification and operational integrity to develop and construct ordinary commercial housing, and to actively meet the reasonable demand for financing of on-going or continued construction projects with good market outlook;

- the Notice of the PBOC and the CBRC on Issues Concerning the Improvement of Differential Housing Credit Policies (《中國人民銀行、中國銀行業監督管理委員會關於完善差別化住房信貸政策有關問題的通知》), which implements the Notice of the State Council on Firmly Curbing Excessive Rise of Housing Prices in Some Cities in respect of housing loans, requires all commercial banks not to grant housing loans to families who are purchasing a third or more residential property or to non-PRC residents who are unable to provide evidence of one or more years' payments of local tax or social security. With respect to a first-time purchase of any commercial residential property, the minimum down payment ratio is set at 30%, while the minimum down payment for a second-time home buyer is 50% with the interest rate being no less than 110% of the PBOC loan benchmark interest rate as set out in the Notice of the State Council on Firmly Curbing Excessive Rise of Housing Prices in Some Cities. In addition, the Notice of the General Office of the CBRC on Issues Concerning the Improvement of Housing Financial Services and the Reinforcement of Risk Management (《中國銀監會辦公廳關於做好住房金融服務加強風險管理的通知》) provides that the minimum down payment for a second-time home buyer is raised to 60% for housing loans granted after the issuance of the Notice of the General Office of the State Council on Issues Concerning Further Enforcing the Regulation and Control of Real Estate Market (《國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知》). 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 loan benchmark interest rate for a family purchasing a home for self-use for the first time. The regulation provides that banking institutions should apply the policies for first-time home buyers if a family already owns a residence, has fully repaid the relevant loan, and applies for a loan to purchase another ordinary commercial residence to improve its living condition. Further, in cities that have lifted or have not imposed the restrictions for property purchasing, when a family that owns two or more homes and has repaid in full all relevant loans applies for a loan to purchase another residence, banking institutions shall prudently determine the down payment ratio and the interest rate, taking into account the borrower's ability to make repayment and credit standing;

- the Notice of the MOF, the NDRC, the PBOC and the CBRC on Implementing Several Matters relating to the Circular of the State Council on Relevant Issues Concerning Strengthening the Administration of Local Government Financing Vehicles (《財政部、國家發展和改革委員會、中國人民銀行、中國銀行業監督管理委員會關於貫徹〈國務院關於加強地方政府融資平台公司管理有關問題的通知〉相關事項的通知》), the Guiding Opinions of the CBRC on Strengthening the Risk Management of Loans to Financing Vehicles (《中國銀監會關於加強融資平台貸款風險管理的指導意見》), the Notice of Further Implementation of Risk Control and Management of Local Government Financing Vehicles in 2011 (《關於切實做好2011年地方政府融資平台貸款風險監管工作的通知》), the Guiding Opinions of the CBRC on Strengthening the Risk Control and Management of Loans to Local Financing Vehicles in 2012 (《中國銀監會關於加強2012年地方政府融資平台貸款風險監管的指導意見》), which require that banking institutions strictly implement pre-lending investigation, examination at lending and post-lending inspection systems for loans to Local Government Financing Vehicles (the "LGFVs"), prudently grant loans to LGFVs and apply accurate classifications, and implement dynamic adjustment to reflect and assess accurately the risk profile of such loans. Banking institutions are also required to consider the debt burdens of local governments and the potential risks and expected losses of loans to LGFVs. The various regulations provide that the allowance for impairment losses is to be provided reasonably and the risk-weighting in calculating capital adequacy is to be determined by full coverage, basic coverage, semi-coverage and non-coverage of cash flow of such loans. In addition, the Guiding Opinions of the CBRC on Strengthening the Risk Control and Management of Loans to Local Financing Vehicles in 2013 (《中國銀監會關於加強2013年地方政府融資平台貸款風險監管的指導意見》) require each bank to impose aggregate loan limits on LGFVs and not to expand the scale of LGFVs, and also provide that, for the LGFVs with a cash flow coverage ratio lower than 100% or an asset-liability ratio higher than 80%, the proportion of their loans to total loans granted by the bank to vehicles should not exceed that of the previous year, and that the bank shall take measures to gradually reduce credit extension and actively collect such loans;

- the Guiding Opinions on Further Supporting the Restructuring and Revitalization of Key Industries and Curbing Overcapacity in Certain Industries through Financial Services (《關於進一步做好金融服務支持重點產業調整振興和抑制部分行業產能過剩的指導意見》), which provide that banking institutions should, in compliance with the Notice of the State Council on Ratifying and Forwarding the Several Opinions of the National Development and Reform Commission and Other Ministries on Curbing Overcapacity and Redundant Construction in Certain Industries and Guiding the Sound Development of Industries (《國務院批轉發展改革委等部門關於抑制部分行業產能過剩和重複建設引導產業健康發展若干意見的通知》) and in response to the national industrial policy and financial control requirements, extend credit based on the principle of differential treatment. For enterprises and projects that revitalize key industries, meet market entry requirements and comply with the bank's lending policy, the regulations provide that credit extension should be made in a timely and efficient manner. For those that fail to satisfy these conditions, the regulations provide that credit should not be extended. For projects in industries with overcapacity, the regulations provide that credit extension should be strictly examined prior to approval;

- the Guidelines of Green Credit (《綠色貸款指引》), which require banking institutions to support energy saving, emission reduction and environment protection, and avoid the environmental and social risks of their customers. Under these Guidelines, banking institutions are required to effectively identify, measure, monitor and control environmental and social risks in their credit business activities, and to establish relevant risk management systems. Banks are also required to explicitly support green credit, formulate specific guidelines for credit extensions to restricted industries and those with substantial environmental and social risks, carry out differential and dynamic credit extension policies, and implement risk exposure management systems. Specifically, banking institutions are required to carry out more thorough due diligence investigations on environmental and social risk by taking into account the characteristics of their customers and are prohibited from granting credit to customers that fail to comply with relevant standards on environmental and social performance. Customers with substantial environmental and social risks are required to submit environmental and social risk reports and the banking financial institutions are required to include specific terms to address those risks in loan agreements. Also, banking financial institutions are required to implement tailor-made post-lending management measures for customers with potentially substantial environmental and social risks, adopt proper mitigating measures in a timely manner and report to regulatory authorities whenever an incident with substantial environmental and social risk occurs; and

- The Notice of CBRC on Advancing the Financial Services for Small Enterprises and Micro Enterprises (《關於深化小微企業金融服務的意見》), the Guiding Opinion of the General Office of State Council on Financial Support for Adjustment, Transformation and Upgrading of Economic Structure (《國務院辦公聽關於金融支持經濟結構調整和轉型升級的指導意見》), the Implementation Opinion of the General Office of State Council on Financial Support for the Development of Small Enterprises and Micro Enterprises (《國務院辦公廳關於金融支持小微企業發展的實施意見》) and the Guiding Opinion of CBRC on Further Enhancing the Financial Service Work for Small Enterprises and Micro Enterprises (《關於進一步做好小微企業金融服務工作的指導意見》) provided that, banking financial institutions shall adhere to the commercial sustainability principle and provide prior financial support to the small and micro enterprises which meet the national industrial and environmental policies, create more jobs and have the intention and capability to repay the loan. Banking financial institutions shall be subject to commercial sustainability and effective risk control, positively adjust the credit structure and make credit plans separately for small and micro enterprises.

We have adopted certain rules and measures to comply with the above regulations. We have also further enhanced our risk management and internal control capabilities in respect of loans and credit granted to certain specific industries and customers.

Foreign Exchange Business

Commercial banks are required to obtain approvals from the CBRC and the SAFE to conduct the business of foreign exchange. Under the PRC's anti-money laundering laws and regulations, PRC financial institutions are required to report to the Anti-money Laundering Monitoring and Analysis Center any large or suspicious foreign exchange transactions which they encounter 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:

- underwrite and deal in Chinese government bonds, financial institution bonds and commercial bonds issued by qualified non-financial institutions;
- act as agents in transactions involving securities, including bonds issued by the Chinese government, financial institutions and other corporate entities;
- provide institutional and individual investors with comprehensive asset management advisory services;
- act as financial advisors in connection with large infrastructure projects, mergers and acquisitions and bankruptcy reorganizations; and
- act as custodians for funds, including securities investment funds and corporate annuity funds.

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

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, for example, each outlet of a commercial bank may, in principle, cooperate with no more than three insurance companies in a fiscal year to sell their insurance products. If the outlet cooperates with more than three insurance companies, the outlet must report to the local branch of the CBRC. Pursuant to the Supervisory Guidance on the Insurance Agency Business of Commercial Banks (《商業銀行代理保險業務監管指引》) jointly issued by the CIRC and the CBRC on March 7, 2011, if a commercial bank operates an insurance agency business, each of its business outlets is required to obtain the requisite license issued by the CIRC and authorization from the tier-one branch of the commercial bank before operating such business. On January 8, 2014, the CIRC and the CBRC jointly issued the Notice Concerning Further Regulation of Agency Sales of Insurance Business Conducted by Commercial Banks (《中國保監會、中國銀監會關於進一步規範商業銀行代理保險業務銷售行為的通知》), which requires commercial banks to assess the demands and risk tolerance of the policyholders, and recommend insurance products based on the assessment results. In addition, the total premium received by a commercial bank from agency sales of accident insurance, health insurance, term life insurance, whole life insurance, annuity insurance with an insurance period of no less than 10 years, endowment insurance with an insurance period of no less than 10 years, property insurance (excluding investment insurance offered by property insurance companies), guarantee insurance and credit insurance shall be no less than 20% of the total premium of its insurance agency business.

Our head office, and some of our branches and sub-branches have obtained the insurance agency business license from the CIRC. However, as of the Latest Practicable Date, we have not engaged in any insurance agency business. If we engage in insurance agency business in the future, we are required to comply with the requirements of the above-mentioned laws and regulations.

Wealth Management

In September 2005, the CBRC issued the Interim Measures on Administration of the Personal Wealth Management Services of Commercial Banks (《商業銀行個人理財業務管理暫行辦法》). Thereafter, the General Office of the CBRC issued the Notice Regarding the Adjustment to the Administration of the Personal Wealth Management Services of Commercial Banks (《關於調整商業銀行個人理財業務管理有關規定的通知》) in November 2007 and the Notice on Further Regulation on the Administration of the Reporting of the Personal Wealth Management of Commercial Banks (《關於進一步規範商業銀行個人理財業務報告管理有關問題的通知》) on April 28, 2009, respectively. In addition to domestic personal wealth management, the PBOC, the CBRC and the SAFE jointly issued the Interim Administrative Measures for Commercial Banks to Provide Overseas Financial Management Services (《商業銀行開辦代客境外理財業務管理暫行辦法》), effective on April 17, 2006, which permitted duly licensed commercial banks to make overseas investments using funds from investors in pre-approved financial products on behalf of domestic institutions and individuals.

According to the measures and the notice, sale of wealth management plans by commercial banks is subject to reporting requirement. Commercial banks are also subject to certain restrictions on personal wealth management products. In addition, under the Guidelines for the Risk Management of the Personal Wealth Management Services of Commercial Banks (《商業銀行個人理財業務風險管理指引》) issued by the CBRC in September 2005, commercial banks are required to establish an auditing and reporting system in respect of their wealth management services and to report any material risk management issues to the relevant authorities. Since then, the CBRC has issued a series of regulations in an effort to further improve the reporting mechanism and risk control of personal wealth management services provided by commercial banks. To further standardize and regulate the sales of wealth management products, the CBRC issued the Administrative Measures on the Sales of Wealth Management Products of Commercial Banks (《商業銀行理財產品銷售管理辦法》) in August 2011, which require commercial banks to prudently operate and disclose their wealth management business to fully protect the interests of consumers in a timely manner.

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

Inter-bank Business

On April 24, 2014, the PBOC, the CBRC, the CSRC, the CIRC and the SAFE jointly issued the Circular on Regulating Inter-bank Businesses of Financial Institutions (《關於規範金融機構同業業務的通知》) (Yin Fa [2014] No.127) ("Circular 127"), which sets out certain requirements in connection with regulating inter-bank business operations, the enhancement and improvement in the internal and external management of inter-bank businesses, and the promotion of compliant and innovative assets and liabilities businesses. For example, (i) Circular 127 defines and regulates inter-bank investment and financing businesses, including inter-bank lending, inter-bank deposits, inter-bank borrowing, inter-bank payments, financial assets held under resale agreements or financial assets sold under repurchase agreements; and the Circular also required that inter-bank businesses (with investment and financing being the core businesses) should be classified into different categories in accordance with their substance, and should be managed based on the classification; (ii) financial assets held under resale agreements and financial assets sold under repurchase agreements shall only include bank acceptance bills, bonds, treasury bills and other financial assets with a reasonable fair value and high liquidity that are traded on the interbank market or securities exchange market; (iii) financial institutions that engage in the business of financial assets held under resale agreements and financial assets sold under repurchase agreements and inter-bank 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 central government; (iv) financial institutions shall accurately measure risks and set aside capital and make provisions pursuant to the principle of "substance over form" and according to the nature of the underlying assets invested; (v) financial institutions shall determine the financing term in a reasonable and prudent manner; and the term of inter-bank borrowing may not exceed three years and the term of other inter-bank financings may not exceed one year, and such terms may not be extended upon their maturity; (vi) the net balance of inter-bank funds (excluding inter-bank deposits for settlement purposes) extended by a single commercial bank to another financial institution with legal person status after deducting assets with zero risk weight may not exceed 50% of the bank's Tier 1 capital; and the net balance of inter-bank funds borrowed by a single commercial bank may not exceed one third of its total liabilities; and (vii) financial institutions engaging in inter-bank businesses shall establish a sound risk management system and internal control system and adopt correct accounting treatments.

On May 8, 2014, the General Office of the CBRC issued the Notice on the Regulation of the Management of Inter-bank Business Conducted by Commercial Banks (《關於規範商業銀行同業業務治理的通知》) (Yin Jian Ban Fa [2014] No. 140) ("Circular 140"), which requires commercial banks to establish a management system for inter-bank businesses based on the scale and complexity of the inter-bank businesses conducted, and conduct all inter-bank businesses through specialized departments by the end of September 2014. For the inter-bank businesses which can be conducted in the form of electronic transactions via financial trading markets, such as inter-bank borrowing and lending, bonds held under resale agreements and bonds sold under repurchase agreements and certificates of inter-bank deposits, specialized departments may not entrust other departments or branches to handle them. For the inter-bank business which cannot be conducted in the form of electronic transactions via financial trading markets, specialized departments may entrust other departments or branches to conduct operations such as marketing and inquiry, project initiation and customer relationship maintenance. The specialized departments, however, must approve the counterparty, amount, term, pricing and contract on a case-by-case basis, and shall be responsible for centralizing accounting treatment and assuming full risk control accountability. Commercial banks shall establish a sound management system for the authorization of inter-bank businesses, improve the credit management policies and the counterparty entry system.

The Bank confirmed that its inter-bank business has complied with Circular 127 and Circular 140 since the respective effective dates and that the compliance with Circular 127 and Circular 140 did not materially and adversely affect its business operation or financial position.

Electronic Banking

In January 2006, the CBRC issued 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》) in an effort to enhance risk management and security standards in this sector. All banking institutions applying to establish an e-banking business are required to have sound internal control and risk management systems and are not permitted to have any major accidents relating to their primary information management and operations processing systems in the year immediately prior to the submission of their application. In addition, all banking institutions conducting e-banking business must adopt security measures to ensure the confidentiality of information and to prevent the unauthorized use of e-banking accounts.

In order to regulate the management of customer information by commercial banks and to effectively protect customer information, the CBRC issued the Notice on Enhancing the Management of Customer Information of Electronic Banking (《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 customers' sensitive information to third-party organizations. A centralized electronic banking management department shall be specified for the electronic funds transfer and payment business in order to ensure the safe, stable and ongoing operations of the business.

Credit Cards

On January 13, 2011, the CBRC issued 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 set forth conditions that commercial banks must meet to conduct credit card businesses, including obtaining prior approval from the CBRC. Commercial banks are required to establish effective internal control and risk management systems to monitor the operation of their credit card business, as well as to protect the legal rights of customers and protect their personal information. Commercial banks are also required to fully disclose the risks related to the use of credit cards to their customers and establish comprehensive mechanisms to handle relevant complaints.

Proprietary Investments

In general, commercial banks in the PRC are prohibited from making domestic investments other than in debt instruments issued by the Chinese government and financial institutions, short-term commercial paper, medium-term notes and corporate bonds issued by qualified non-financial institutions, and certain derivative products. Unless approved by the Chinese government, commercial banks in the PRC are prohibited from engaging in trust investment and securities businesses, or investing in real property (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 General Office of the CBRC issued the "Notice on Establishment of Community Sub-Branches and SME Sub-Branches by Small- and Medium-sized Commercial Banks", supporting eligible small- and medium-sized 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. The existing bank outlets providing inquiry service, which are characterized by "self-service bank plus people", should be classified as community sub-branches and sub-branches for small and micro enterprises, and applications should be submitted for their establishment pursuant to relevant admission procedures.

In order to promote our products and services, we have set up certain financial service stations. Please see "Business – Distribution Network – Financial Service Stations". As advised by Tian Yuan Law Firm, our PRC legal advisor, the inquiry and payment machines or community smart terminals set up by the Bank at the financial service stations do not provide cash deposit and withdrawal functions, and financial service stations are not independent business premises of us; therefore, our financial service stations are neither self-service bank nor bank outlets providing inquiry service as stipulated in the "Notice on Establishment of Community Sub-branches and SME Sub-branches by Small- and Medium-sized Commercial Banks" that should be defined as the "self-service bank plus people" type of community sub-branches and sub-branches for small and micro enterprises.

Financial Innovation

In December 2006, the CBRC issued the Guidelines on Financial Innovation of Commercial Banks (《商業銀行金融創新指引》), the purpose of which is to encourage PRC commercial banks to prudently engage in financial innovation-related activities, including developing new businesses and products and improving existing businesses and products, expanding their scope of business, enhancing cost efficiency and profitability, and reducing their reliance on lending business for profits. To facilitate financial innovation by PRC commercial banks, the CBRC has indicated that it will streamline and increase the efficiency of the examination and approval procedures for new products.

PRICING OF PRODUCTS AND SERVICES

Interest Rates for Loans and Deposits

Interest rates for RMB-denominated loans and deposits were historically set by the PBOC. In accordance with the PRC Commercial Banking Law, each commercial bank is required to determine both its loan rate within the maximum and minimum loan rate limits and its deposit rate within the maximum and minimum deposit rate limits, in each case, as 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. According to the current PBOC requirements, a commercial bank in China may set its interest rate for RMB-denominated deposit at no higher than 120% of the relevant PBOC benchmark rates, while the interest rate for RMB-denominated loans (except for personal residential housing loans) can be determined by a commercial bank at its own discretion. The table below sets out, for the periods indicated, the permitted range of interest rates for RMB-denominated loans and deposits.

	Loans since July 20, 2013(1)	**Deposits since November 22, 2014(2)**
Maximum interest rates	No Cap	Up to 120% of the PBOC benchmark rate, except for negotiated deposits
Minimum interest rates	No minimum	No minimum

Source: PBOC

(1) From March 17, 2005 to August 18, 2006, interest rates for personal residential mortgage loans were regulated in the same way as most other types of loans. Since August 19, 2006, the minimum interest rate for personal residential mortgage loans has been adjusted to 85% of the PBOC benchmark lending rate. Since October 27, 2008, the minimum interest rate for personal residential mortgage loans has been adjusted to 70% of the PBOC benchmark lending rate. Since April 17, 2010, the minimum interest rates for the loans to second-time home buyers have been adjusted to 110% of the PBOC benchmark lending rate. 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 rates. 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.

(2) Beginning on October 29, 2004, commercial banks in the PRC have been permitted to set their own interest rates on RMB-denominated deposits so long as such interest rates were not higher than the relevant PBOC benchmark rates. Since June 8, 2012, commercial banks in the PRC have been allowed to set their own interest rates on RMB-denominated deposits up to 110% of the relevant PBOC benchmark rates. With effect from November 22, 2014, the PBOC raised the maximum interest rates for RMB-denominated deposits to 120% of the PBOC benchmark interest rate. However, these restrictions do not apply to interest rates on negotiated deposits, which are deposits by domestic insurance companies in amounts of RMB30 million or more or deposits by social security funds in amounts of RMB500 million or more, in each case with a term longer than five years.

From 2008 to the Latest Practicable Date, the PBOC has adjusted the benchmark rate for RMB-denominated loans 13 times and the benchmark rate for RMB-denominated deposits 12 times.

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

Date of adjustment	Six months or less	Six months to one year (inclusive of one year)	One to three years (inclusive of three years)	Three to five years (inclusive of five years)	More than five years	Housing Fund Loan: Five years or less	Housing Fund Loan: More than five years
	(interest rate per annum %)						
September 16, 2008	6.21	7.20	7.29	7.56	7.74	4.59	5.13
October 9, 2008	6.12	6.93	7.02	7.29	7.47	4.32	4.86
October 30, 2008	6.03	6.66	6.75	7.02	7.20	4.05	4.59
November 27, 2008	5.04	5.58	5.67	5.94	6.12	3.51	4.05
December 23, 2008	4.86	5.31	5.40	5.76	5.94	3.33	3.87
October 20, 2010	5.10	5.56	5.60	5.96	6.14	3.50	4.05
December 26, 2010	5.35	5.81	5.85	6.22	6.40	3.75	4.30
February 9, 2011	5.60	6.06	6.10	6.45	6.60	4.00	4.50
April 6, 2011	5.85	6.31	6.40	6.65	6.80	4.20	4.70
July 7, 2011	6.10	6.56	6.65	6.90	7.05	4.45	4.90
June 8, 2012	5.85	6.31	6.40	6.65	6.80	4.20	4.70
July 6, 2012	5.60	6.00	6.15	6.40	6.55	4.00	4.50
November 22, 2014	5.60	5.60	6.00	6.00	6.15	3.75	4.25

Source: PBOC

The table below sets out the PBOC benchmark rates for RMB-denominated deposits since 2008.

Date of adjustment	Demand deposits	Time deposits					
		Three months	Six months	One year	Two years	Three years	Five years
		(interest rate per annum %)					
October 9, 2008	0.72	3.15	3.51	3.87	4.41	5.13	5.58
October 30, 2008	0.72	2.88	3.24	3.60	4.14	4.77	5.13
November 27, 2008	0.36	1.98	2.25	2.52	3.06	3.60	3.87
December 23, 2008	0.36	1.71	1.98	2.25	2.79	3.33	3.60
October 20, 2010	0.36	1.91	2.20	2.50	3.25	3.85	4.20
December 26, 2010	0.36	2.25	2.50	2.75	3.55	4.15	4.55
February 9, 2011	0.40	2.60	2.80	3.00	3.90	4.50	5.00
April 6, 2011	0.50	2.85	3.05	3.25	4.15	4.75	5.25
July 7, 2011	0.50	3.10	3.30	3.50	4.40	5.00	5.50
June 8, 2012	0.40	2.85	3.05	3.25	4.10	4.65	5.10
July 6, 2012	0.35	2.60	2.80	3.00	3.75	4.25	4.75
November 22, 2014	0.35	2.35	2.55	2.75	3.35	4.00	N/A(1)

Source: PBOC

(1) With effect from November 22, 2014, the PBOC will not publish the benchmark interest rate on RMB-denominated deposits for a term of five years.

The PBOC generally does not regulate interest rates for foreign currency-denominated loans or deposits, except for US dollar-, Hong Kong dollar-, Japanese Yen- and Euro-denominated deposits of less than US$3 million (or the equivalent) and with a term of one year or less, the maximum interest rates on which may not exceed the PBOC benchmark rates for small amount of short-term foreign currency deposits.

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

Pricing for Fee- and Commission-based Products and Services

To improve the service standards of the banking industry and enhance the industry's social responsibilities under the principle of market orientation, the CBRC, the PBOC and the NDRC jointly issued the Notice on the Waiver of Some Service Charges of Banking Institutions (《關於銀行業金融機構免除部分服務收費的通知》) on March 9, 2011, which requires banking institutions to waive 34 charging items in relation to RMB personal accounts starting from July 1, 2011. In an effort to further regulate banking institutions' charging items, on January 20, 2012, the CBRC issued the Notice on Rectifying the Irregular Operations of Banking Financial Institutions (《關於整治銀行業金融機構不規範經營的通知》), which sets out certain prohibited operations in relation to charging items for banking institutions' credit business and enhances the transparency of pricing. Under the Administrative Measures on Pricing of Commercial Banking Services (《商業銀行服務價格管理辦法》) jointly issued by the CBRC and the NDRC on February 14, 2014 and effective on August 1, 2014, other than those services the pricing for which are guided or determined by the government, commercial banks' services are priced based on market conditions. In the event that the commercial bank increases the service prices or sets new service prices 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 Measures.

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

The following table sets forth the historical RMB statutory reserve ratios applicable to our Bank since 2008. Throughout the Track Record Period, we have complied with the relevant requirements of the PBOC. There has been no further adjustment made by the PBOC to the statutory reserve ratio applicable to our Bank from May 19, 2012 up to the Latest Practicable Date.

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

Source: PBOC

In 2014, in order to beef up financial support to the agricultural sector, farmers, rural areas, and small and micro-enterprises, the PBOC has decided to reduce the deposit reserve ratio, effective from April 25 and June 16, 2014, respectively, for certain commercial banks. It decreased the RMB deposit reserve ratio for rural commercial banks on the county level by 2%, and that for rural cooperative banks on the county level by 0.5%, effective from April 25, 2014, and decreased the RMB deposit reserve ratio for commercial banks which meet the requirements of prudent operation and offer loans to the agricultural sector, farmers and rural areas, as well as the small and micro-enterprises (excluding the institutions whose deposit reserve ratios have been reduced on April 25, 2014) by 0.5%, effective from June 16, 2014.

SUPERVISION OVER CAPITAL ADEQUACY

Latest CBRC Supervisory Standards Over Capital Adequacy

Prior to March 1, 2004, commercial banks were required to maintain a minimum capital adequacy ratio of 8% and a minimum core capital adequacy ratio of 4%, calculated based on the following formulae in accordance with the CBRC requirements:

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

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

On February 23, 2004, the CBRC issued the Capital Adequacy Measures which became effective on March 1, 2004 and was amended on July 3, 2007 and superseded by the Capital Administrative Measures on January 1, 2013. We were required to comply with the Capital Adequacy Measures before January 1, 2013. While the Capital Administrative Measures did not change the pre-existing requirements of a minimum 8% capital adequacy ratio and a minimum 4% core capital adequacy ratio, it amended the risk weighting for various assets and adjusted the components of capital. In addition, the Capital Administrative Measures required commercial banks to make adequate allowance for various impairment losses, including those associated with loans, before calculating their capital adequacy ratios. These changes resulted in a more stringent capital adequacy requirement.

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

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

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

In the above formulae:

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

Market risk capital	Refers to the capital that a bank is required to provide for the market risks relating to its assets. Commercial banks with total trading book positions greater than 10% of the bank's total on- and off-balance sheet assets or over RMB8,500 million are required to make provisions for market risk capital.

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

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

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

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

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

In the preceding formulae:

Total Capital	Includes core tier 1 capital, other tier 1 capital and tier 2 capital.
Tier 1 Capital	Includes both core tier 1 capital and other tier 1 capital.
Core Tier 1 Capital	Includes paid-in capital or common shares, capital reserve, surplus reserve, general reserve, retained earnings and applicable portions of minority shareholders' capital that may be included.

Other Tier 1 Capital	Includes both other tier 1 capital instrument as well as its premium and applicable portions of minority shareholders' capital that may be included.
Tier 2	Includes both tier 2 capital instrument as well as its premium, excess allowance for loss and portions of minority shareholders' capital that may be included.
Corresponding capital deductions	Items that should be deducted correspondingly when commercial banks calculate the capital adequacy ratio at each tier.
Risk-weighted assets	Includes credit risk-weighted assets, market risk-weighted assets and operational risk-weighted assets.

Commercial banks may adopt the weighted method or the internal ratings-based approach to measure credit risk-weighted assets.

Market risk-weighted assets are measured by multiplying the required capital for market risk by 12.5. Calculation of market risk capital should cover the interest rate risk and stock risk associated with the commercial banks' trading accounts as well as exchange rate risk and commodity risk. Commercial banks may adopt the standardized method or the internal model method to measure the required capital for market risk.

Operational risk-weighted assets are measured by multiplying the required capital for operational risk by 12.5. Commercial banks may adopt the basic indicator method, the standardized method or the advanced measurement method to measure the required capital for operational risk.

The following table sets forth risk weightings for various assets when adopting the weighted method to measure credit risk-weighted assets under the Capital Administrative Measures.

Items		**Risk weightings**
a.	Cash	
i.	Cash and cash equivalents	0%
b.	Claims on central government and central bank	
i.	Claims on the PRC central government	0%
ii.	Claims on the PBOC	0%
iii.	Claims on central governments or central bank of other countries or jurisdictions where the credit ratings for such countries or jurisdictions are AA- (including AA-) or higher(1)	0%

Items			Risk weightings
	iv.	Claims on central governments or central bank of other countries or jurisdictions where the credit ratings for such countries or jurisdictions are between AA- and A- (including A-)(1)	20%
	v.	Claims on central governments or central bank of other countries or jurisdictions where the credit ratings for such countries or jurisdictions are between A- and BBB- (including BBB-)(1)	50%
	vi.	Claims on central governments or central bank of other countries or jurisdictions where the credit ratings for such countries or jurisdictions are between BBB- and B- (including B-)(1)	100%
	vii.	Claims on central governments or central bank of other countries or jurisdictions where the credit ratings for such countries or jurisdictions are below B-(1)	150%
	viii.	Claims on central governments or central bank of other countries or jurisdictions without ratings	100%
c.		Claims on public-sector entities of the PRC	20%
d.		Claims on domestically incorporated financial institutions	
	i.	Claims on policy banks (not including subordinated bonds)	0%
	ii.	Claims on asset management companies invested by the PRC central government	
	1.	Claims on debts issued by asset management companies by way of private placements for purposes of acquiring non-performing loans of state-owned banks	0%
	2.	Other claims on asset management companies	100%
	iii.	Claims on domestically incorporated commercial banks (not including subordinated bonds)	
	1.	With an original maturity of three months or less	20%
	2.	With an original maturity of over three months	25%
	iv.	Claims on subordinated bonds issued by domestically incorporated commercial banks (part not deducted)	100%
	v.	Claims on other domestically incorporated financial institutions	100%
e.		Claims on financial institutions and public-sector entities incorporated in other countries or jurisdictions	
	i.	Claims on commercial banks or public-sector entities where the credit ratings for such countries or jurisdictions are AA- (including AA-) or higher(1)	25%

Items		Risk weightings
ii.	Claims on commercial banks or public-sector entities where the credit ratings for such countries or jurisdictions are between AA- and A- (including A-)(1)	50%
iii.	Claims on commercial banks or public-sector entities where the credit ratings for such countries or jurisdictions are between A- and B- (including B-)(1)	100%
iv.	Claims on commercial banks or public-sector entities where the credit ratings for such countries or jurisdictions are below B-(1)	150%
v.	Claims on commercial banks or public-sector entities without credit ratings for such countries or jurisdictions	100%
vi.	Claims on multilateral development banks, the Bank of International Settlement and the International Monetary Fund	0%
vii.	Claims on other financial institutions	100%
f.	Claims on ordinary enterprises	100%
g.	Claims on qualified small and micro enterprises	75%
h.	Claims on individuals	
i.	Residential mortgage loans	50%
ii.	The supplementary part of a supplementary financial facility secured by the reevaluated net value of a mortgaged residence before the purchaser has paid up all the loans	150%
iii.	Other claims on individuals	75%
i.	The balance of rental assets	100%
j.	Equity	
i.	Equity investments in financial institutions (part not deducted)	250%
ii.	Passive equity investments in business enterprises	400%
iii.	Equity investment in business enterprises for policy reasons upon the extraordinary approval of the State Council	400%
iv.	Other equity investments in business enterprises	1250%
k.	Real estate not for own use	
i.	Real estate not for own use, obtained by practicing mortgage rights within the lawful disposition period	100%
ii.	Other real estate not for own use	1250%
l.	Other assets	
i.	Net deferred tax assets in reliance on the bank’s future profit (part not deducted)	250%
ii.	Other assets on balance sheet	100%

Note:

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

Regulatory Requirements in respect of Capital Adequacy Ratios

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

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

- capital adequacy ratio shall not be lower than 8%;

- tier 1 capital adequacy ratio shall not be lower than 6%; and

- core tier 1 capital adequacy ratio shall not be lower than 5%.

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

In addition, the systematically important banks in the PRC are required to calculate and set aside additional capital in an amount equal to 1% of their risk-weighted assets, which is to be fulfilled by core Tier 1 capital. If a 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 on Banking Supervision. As of the Latest Practicable Date, the PRC regulator had issued no standards for determining, and no list of, such systematically important banks.

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

- specific capital requirements in respect of certain asset portfolios on the basis of risk assessment; and

- specific capital requirements on an individual bank according to the results of supervisory inspections.

Time Limit for Meeting the Requirements

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

To ensure the smooth implementation of the Capital Administrative Measures, on November 30, 2012 the CBRC issued the Notice Regarding the Arrangement of Transition Period of Implementation of the Administrative Measures for the Capital of Commercial Banks (《關於實施<商業銀行資本管理辦法(試行)>過渡期安排相關事項的通知》). This notice provides that commercial banks must meet the minimum capital requirements and also provides that the systematically important banks in the PRC are required to meet the additional capital requirements before 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 annual capital adequacy ratio requirement as follows:

		As of December 31,					
Type of Bank	**Item**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Systematically Important Banks	Core tier 1 capital adequacy ratio	6.5%	6.9%	7.3%	7.7%	8.1%	8.5%
	Tier 1 capital adequacy ratio	7.5%	7.9%	8.3%	8.7%	9.1%	9.5%
	Capital adequacy ratio	9.5%	9.9%	10.3%	10.7%	11.1%	11.5%
Other Banks	Core tier 1 capital adequacy ratio	5.5%	5.9%	6.3%	6.7%	7.1%	7.5%
	Tier 1 capital adequacy ratio	6.5%	6.9%	7.3%	7.7%	8.1%	8.5%
	Capital adequacy ratio	8.5%	8.9%	9.3%	9.7%	10.1%	10.5%

Note: We are categorized as "Other Banks" as shown in the table above.

In addition, if the regulatory authorities require commercial banks to set up countercyclical capital buffer requirements or 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 Capital Instruments to Replenish Capital

Since June 17, 2004, PRC commercial banks have been permitted to issue bonds which are subordinated to the banks' other liabilities but are senior to the banks' equity capital, according to the Measures for Administration on Issuance of Subordinated Bonds of Commercial Banks (《商業銀行次級債券發行管理辦法》) jointly issued by the PBOC and the CBRC. Upon approval by the CBRC, PRC commercial banks may include such subordinated bonds in their supplementary capital. Subordinated bonds can be issued either in a public offering in the inter-bank bond market or in a private placement. PRC commercial banks may not hold an aggregate amount of subordinated bonds issued by other banks in excess of 20%

of their core capital. The issuance of subordinated bonds by PRC commercial banks is subject to the approval of the CBRC and the PBOC. The CBRC regulates the qualification for bonds issue and the method for the inclusion in the supplementary capital. The PBOC regulates the issuance and trading of subordinated bonds in the inter-bank bond market.

On December 12, 2005, the CBRC issued the Notice Regarding the Issuance of Hybrid Capital Bonds by Commercial Banks for the Replenishment of Supplementary Capital (《關於商業銀行發行混合資本債券補充附屬資本有關問題的通知》) permitting eligible commercial banks to issue hybrid capital bonds in the inter-bank market and include such bonds in their supplementary capital. The introduction of hybrid capital bonds in the PRC has opened a new channel for commercial banks to replenish their supplementary capital and improve their capital adequacy ratio. On September 5, 2006, the PBOC issued the Notice of the PBOC (2006) No. 11 – Matters Regarding the Issuance of Hybrid Capital Bonds by Commercial Banks (《中國人民銀行公告(2006)第11號—商業銀行發行混合資本債券的有關事宜》), which clarified the definition of hybrid capital bonds and specified the relevant issuance requirements.

On October 18, 2009, the CBRC issued the Notice on Improving the Mechanism for Capital Replenishment of Commercial Banks (《關於完善商業銀行資本補充機制的通知》) which required national commercial banks (including China Development Bank, state-owned commercial banks and joint-stock commercial banks) and other commercial banks to maintain a core capital adequacy ratio of not less than 7% and 5%, respectively, if they sought to issue long-term subordinated debt for the replenishment of supplementary capital. It further required that the national commercial banks and other commercial banks should not issue long-term subordinated debt which constituted more than 25% and 30% of their respective core capital. In the calculation of the capital adequacy ratio, banks are required to fully deduct any long-term subordinated debt issued by other banks which they acquired after July 1, 2009 from the long-term subordinated debts that are included in the supplementary capital.

On June 7, 2012, the CBRC issued the Capital Administrative Measures which redefined the capital of a commercial bank from core capital and supplementary capital under the Capital Adequacy Measures to core tier 1 capital, other tier 1 capital and tier 2 capital. Also, the Capital Administrative Measures proposed the concept and criteria for inclusion of tier 2 capital instruments, which differ from that of subordinated debt, subordinated bonds and hybrid capital bonds. Pursuant to the Capital Administrative Measures, unqualified tier 2 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 2 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 the 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.

The Guiding Opinions on Capital Instrument Innovation of Commercial Banks (《關於商業銀行資本工具創新的指導意見》) issued by the CBRC on November 29, 2012 allow and encourage commercial banks to innovate capital instruments (including tier 2 capital instruments) which comply with the Capital Administrative Measures. Pursuant to the guiding opinions, other tier 1 capital and tier 2 capital instruments issued by a commercial bank after January 1, 2013 must contain a provision that requires such instruments to either be written down or converted into common stock upon the occurrence of a triggering event. A triggering event for other tier 1 capital instruments occurs when the core tier 1 capital adequacy ratio of the commercial bank falls to 5.125% or below. A triggering event for tier 2 capital instruments occurs upon the earlier of (i) a decision of write-down or share conversion, without which the commercial bank would become non-viable, as determined by the CBRC; or (ii) the decision to make a public sector injection of capital, or equivalent support, without which the commercial bank would have become non-viable, as determined by relevant authorities.

On October 30, 2013, the CSRC and the CBRC jointly promulgated the Guiding Opinions on the Issuance of Corporate Bonds by Commercial Banks for Capital Replenishment (《關於商業銀行發行公司債券補充資本的指導意見》), which became effective on November 6, 2013. Pursuant to these Guiding Opinions, the listed/pre-IPO commercial banks proposing to issue written-down bonds to supplement capital shall design the relevant terms of the corporate bonds appropriately, formulate a feasible issuance plan, which shall be submitted to the CBRC for the confirmation of the nature of capital. The CBRC shall then issue a regulatory opinion on such issuance plan.

On November 30, 2013, the State Council promulgated the Guidance Opinions on the Pilot Scheme of Preference Shares (《國務院關於開展優先股試點的指導意見》), which sets out the principles regarding the definition of preference shares, the priority of holders of preference shares in receiving profits distribution and remaining assets, the repurchase and conversion of preference shares, the restrictions on voting rights and recovery of voting rights, and the issuance and trading of preference shares. On March 24, 2014, the CSRC promulgated the Administrative Measures on the Pilot Scheme of Preference Shares (《優先股試點管理辦法》) which sets out the specific requirements in respect of the exercise of the rights of holders of preference shares, the issuance of preference shares by listed companies, the non-public placement of preference shares by non-listed public companies, the trading, transfer, registration and settlement of transactions, the information disclosure, the repurchase, merger and acquisition and reorganization, and the regulatory measures and legal liabilities.

Issuance of Special Financial Bonds for Small and Micro-Enterprise Loans

In May 2011, the CBRC issued the Notice on Supporting Commercial Banks to Further Improve the Financial Services Offered to Small Enterprises (《中國銀監會關於支持商業銀行進一步改進小企業金融服務的通知》), which provides that the CBRC will prioritize its support for commercial banks with the outstanding loans to small enterprises reaching a certain proportion of its total outstanding loans to enterprises, when fulfilling the prudent regulatory requirements, to have the priority to support the financial bonds they issued specifically for loans to small businesses. In October 2011, the CBRC issued the Supplementary Notice on

Supporting Commercial Banks to Further Improve the Financing Services Offered to Small-businesses (《中國銀監會關於支持商業銀行進一步改進小型微型企業金融服務的補充通知》), which sets out further provisions for the issuance of special financial bonds for small and micro business loans by commercial banks.

CBRC's Supervision of Capital Adequacy

The CBRC is responsible for supervising the capital adequacy of banking institutions in the PRC. It reviews and evaluates banking institutions' capital adequacy through both on-site examination and off-site surveillance. Commercial banks are required to report to the CBRC their unconsolidated capital adequacy ratios on a quarterly basis and their consolidated capital adequacy ratios on a semi-annual basis.

Under the Capital Administrative Measures, commercial banks are classified into four categories based on their capital adequacy ratios, and the CBRC adopts corresponding measures to these banks, the details of which are as follows:

Categories	Capital adequacy	Measures of the CBRC
Grade I	Commercial banks which meet all the capital requirements for capital adequacy ratio, tier 1 capital adequacy ratio and core tier 1 capital adequacy ratio.	• to require the commercial bank to improve the analysis and forecast of the reasons for the decrease of its capital adequacy ratios; • to require the commercial bank to formulate a practicable capital adequacy ratio management plan; and • to require the commercial bank to improve its risk control capability.
Grade II. . . .	Commercial banks which fail to meet the second pillar capital requirements but meet all other capital requirements for capital adequacy ratio, tier 1 capital adequacy ratio and core tier 1 capital adequacy ratio.	• to adopt the regulatory measures for Grade I banks; • to hold talks on prudent practice with the board of directors and the senior management of the commercial bank;

Categories	Capital adequacy	Measures of the CBRC
		• to issue a regulatory opinion, which must include the problems identified with the capital management of the commercial bank, the proposed measures for rectification and the opinion on meeting the requirements within the prescribed time limit; • to require the commercial bank to formulate a practicable capital replenishment plan and the plan for meeting the requirements within the prescribed time limit; • to increase the frequency of supervision and inspection of the capital adequacy of the commercial bank; and • to require the commercial bank to take risk-mitigation measures for specific risk areas.
Grade III . . .	Commercial banks which meet all the minimum capital requirements for capital adequacy ratio, tier 1 capital adequacy ratio and core tier 1 capital adequacy ratio but fail to meet other capital requirements.	• to adopt the regulatory measures for Grades 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.

Categories	Capital adequacy	Measures of the CBRC
Grade IV . . .	Commercial banks which fail to meet the minimum capital requirement for any of capital adequacy ratio, tier 1 capital adequacy ratio and core tier 1 capital adequacy ratio.	• 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 2 capital instruments or convert them into ordinary shares; • to order the commercial bank to change its directors or senior management or restrict their rights; • to lawfully take over the commercial bank or procure the institutional reorganization of, or even dissolve, the commercial bank; and • to consider other external factors and take other necessary measures in order to solve the problems faced by Grade IV commercial banks.

Note:

(1) As at June 30, 2014, we are a Grade I bank as shown in the table above.

Introduction of the New Leverage Requirements

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

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

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

Commercial banks are required to report to the CBRC their consolidated leverage ratios on a semiannual basis and their unconsolidated leverage ratios on a quarterly basis. For a commercial bank which fails to meet the minimum leverage ratio, the CBRC may take regulatory measures including requiring the commercial bank to: (i) supplement its tier 1 capital within a specified period; (ii) control the growth of its on- and off-balance sheet assets; and (iii) reduce the size of its on- and off-balance sheet assets. If the commercial bank fails to rectify its non-compliance within the specified period, or its behavior has seriously endangered its sound operation or damaged the legitimate interests of depositors or other clients, the CBRC may take relevant regulatory measures pursuant to the PRC Banking Supervision and Regulatory Law. In addition to the above-mentioned measures, the CBRC may also impose an administrative penalty upon the commercial bank.

The above measures also provide that systematically important banks are required to meet the regulatory requirements on leverage ratio before the end of 2013 while non-systematically important banks are required to meet such requirements before the end of 2016. Although we are a non-systematically important bank, we have met the regulatory requirement to have a leverage ratio of not less than 4% by the end of 2013 and as of June 30, 2014.

On November 20, 2014, the CBRC issued an announcement to solicit public comments on the Administrative Measures on the Leverage Ratio of Commercial Banks (Revised Draft for Comment) (《商業銀行槓桿率管理辦法(修訂徵求意見稿)》) (the "Revised Draft"). The Revised Draft does not propose any major changes in respect of the scope of on- and off-balance sheet assets that would be included in the formula for the calculation of the leverage ratio. Key changes proposed by the Revised Draft and the relevant implication on the Bank include:

(a) measurement of off-balance sheet items

Pursuant to the Measures, in calculating the leverage ratio, with the exception of commitment that could be canceled unconditionally at any time, other off-balance sheet items shall be measured using a 100% credit conversion factor. The Revised Draft adjusted such measurement method for other off-balance sheet items so that the credit conversion factors would be 20%, 50% or 100% for different items.

Since the Revised Draft lowered the credit conversion factor of other off-balance sheet items, the leverage ratio of commercial banks would generally increase. As reported in the news published on the CBRC's official website, quantitative estimation shows that the leverage ratio of commercial banks in China would increase, and the CBRC would not impose higher capital requirement on them if the Revised Draft became effective.

If the Revised Draft were passed and became effective, the Bank estimated that its leverage ratio would increase as a result of the change in the measurement of off-balance sheet items.

(b) further clarification on the measurement of exposure of derivatives and securities financing transactions

As of the Latest Practicable Date, the Bank has not operated any business that involves derivatives and this proposed revision will not change the measurement method and results of the Bank's securities financing transactions. Therefore, the relevant revision to clarify the measurement of exposure of these businesses would not have any adverse effect on the Bank's business operation or its financial condition. The Bank plans to continue to monitor any development of the relevant regulation.

(c) clearer and more stringent requirements on the disclosure of leverage ratio of commercial banks

If the Revised Draft were passed and became effective, the Bank would make disclosures strictly in accordance with the Revised Draft.

Based on the foregoing, the implementation of the Revised Draft would not have a material adverse effect on the Bank's business operation and financial condition.

Basel Accords

The Basel Capital Accord, or Basel I, was introduced by the Basel Committee on Banking Supervision, or the Basel Committee, in 1988. Basel I is a capital measurement system for banks that provides for the implementation of a credit risk measurement framework with a minimum capital standard of 8%. Since 1998, the Basel Committee has issued certain proposals for Basel II, to replace Basel I. Basel II retained the key elements of Basel I, including the general requirement for banks to hold total capital equivalent to at least 8% of their risk-weighted assets, but sought to improve the capital framework in various key respects, including: (i) establishment of the "three pillars" framework, namely the first pillar "minimum capital standard", the second pillar "supervision and regulation by regulatory authorities" and the third pillar "information disclosure"; and (ii) introducing material changes to the calculation of capital adequacy. In response to the deficiencies in financial regulation revealed by the 2008 financial crisis, the Basel Committee on Banking Supervision started to advance the global financial regulatory reform in an effort to further strengthen the regulation, supervision and risk management of the banking industry. In such circumstances, Basel III was drafted and then endorsed by G20 Leaders at their November 2010 Seoul summit. On December 16, 2010, Basel III was officially issued by the Basel Committee on Banking Supervision. Basel III enhances micro-prudential regulation and supervision and adds a macro-prudential overlay. These two approaches to supervision are complementary as greater resilience at the individual bank level reduces the risk of system-wide shocks. In summary, Basel III: (i) strengthens capital adequacy in capital resources, risk-weighted assets and capital ratios by requiring banks to hold more higher-quality capital against more conservatively calculated risk-weighted assets; (ii) introduces a new leverage ratio as a backstop to the risk-based requirement, which is aimed at promoting the build-up of capital that can be drawn down in periods of stress; and (iii) introduces two new global liquidity standards, which aim to ensure that adequate funding is maintained in case of crisis.

The CBRC promulgated and amended the Capital Adequacy Measures on February 23, 2004 and July 3, 2007, respectively. The CBRC has advised that the Capital Adequacy Measures are based on Basel I, while also taking into consideration certain aspects of Basel II. On February 28, 2007, the CBRC issued the Guidelines on Implementation of the New Capital Accord in PRC Banking Industry (《中國銀行業實施新資本協議指導意見》), which required large commercial banks, which have set up active operational entities in other countries or regions (including Hong Kong and Macau) and have a significant international business, to implement Basel II by the end of 2010, or with the CBRC's approval, no later than the end of 2013. In March 2009, China officially joined the Basel Committee and participated in the establishment of international standards for banking supervision, which is conducive to the upgrading of supervision techniques and supervision levels in China's banking industry.

In line with the reform of Basel Accords and the implementation of Basel III, on April 27, 2011, the CBRC promulgated the Guiding Opinions on the Implementation of New Regulatory Standards in China's Banking Industry (《中國銀行業監督管理委員會關於中國銀行業實施新監管標準的指導意見》), which set out the key targets and principles for the reform of China's capital regulatory framework. On June 1, 2011, the CBRC issued the Administrative Measures on the Leverage Ratio of Commercial banks. On June 7, 2012, the CBRC issued the Capital Administrative Measures. The Capital Administrative Measures came into effect on January 1, 2013 and superseded the Capital Adequacy Measures and the various guidelines mentioned above. In an effort to enhance the effectiveness of capital supervision, improve the risk management capability of commercial banks and strengthen the constraint function of the market, on July 19, 2013, the CBRC issued the following four policy documents to complement the Capital Administrative Measures: the Measurement Rules for Risk Exposure Capital of Central Counterparties (《中央交易對手風險暴露資本計量規則》); the Supervisory Requirements Concerning Information Disclosure on the Capital Composition of Commercial Banks (《關於商業銀行資本構成信息披露的監管要求》); the Supplemental Supervisory Requirements Concerning the Implementation of Internal Ratings-based Approach by Commercial Banks (《關於商業銀行實施內部評級法的補充監管要求》); and the Questions and Answers Regarding the Capital Supervisory Policy (《資本監管政策問答》).

During the Track Record Period, we have taken various measures to strengthen our capital, including issuing shares in 2011, 2013 and 2014, subordinated bonds in 2011 and Tier 2 capital bonds in 2014. We also planned to raise capital through the proposed A share listing. See "Our History and Operational Reform – Our History – Increase of Registered Capital", "Our History and Operational Reform – Our History – Issuance of Subordinated Bonds" and "Our History and Operational Reform – Application for A Share Listing". As of June 30, 2014, our core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio calculated based on the Capital Administrative Measures were 9.77%, 9.77% and 11.61%, respectively, which complied with the CBRC's requirements for capital adequacy ratios during the transition period.

We plan to replenish our capital mainly through the following measures: (i) using accumulated undistributed profits to continue to replenish the core capital; (ii) establishing an effective long-term capital replenishment mechanism, including, using the net proceeds of the Global Offering to strengthen our capital base, and based on our business development, issuing Tier 2 capital bonds and other alternative capital instruments to the extent permitted by applicable laws and regulations to replenish our capital; and (iii) enhancing the daily measurement and monitoring of the capital adequacy ratios, strictly controlling the growth of risk-weighted assets and developing small and micro enterprise loans and intermediary business, in order to continue to comply with the relevant requirements on capital adequacy ratios during the transition period.

LOAN CLASSIFICATION, ALLOWANCES AND WRITE-OFFS

Loan Classification

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

Loan Loss Allowance

According to the Guidelines of Risk-based Classification of Loans, a loan classified as substandard, doubtful or loss is considered to be non-performing, and commercial banks are required to make allowance based on a reasonable estimate of the probable loss on a prudent and timely basis. According to the Guidelines on Bank Loan Loss Allowance (《銀行貸款損失準備計提指引》), the allowance for impairment losses consists of a general allowance, a specific allowance and a special allowance. General allowance refers to the allowance for all unidentified but possible losses, which are made based on certain percentages of the balance of total outstanding loans; specific allowance refers to the allowance made for specific losses in connection with an individual loan based on its categorization under the Guidelines of Risk-based Classification of Loans; and special allowance refers to the allowance made for the risks specifically related to certain countries, regions, industries, or certain types of loans.

Under the Guidelines on Bank Loan Loss Allowance, commercial banks are required to make a general loan loss allowance on a quarterly basis and to have a general allowance of not less than 1% of the total loans outstanding as of the end of 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 make special allowance in accordance with special risk factors (including risks in association with certain industries and countries), probability of losses and historical experience.

In accordance with the Administrative Measures for Loan Loss Allowance of Commercial Banks (《商業銀行貸款損失準備管理辦法》), which was issued 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 loan provision ratio and its provision coverage ratio, the benchmarks of which are 2.5% and 150%, respectively. The higher of the two ratios will be taken to be the supervisory standard. The boards of directors of commercial banks are required to assume ultimate responsibility for the management of loan loss allowance. Systematically important banks are required to reach the standard before the end of 2013. Non-systematically important banks are required to reach such standard before the end of 2016 and those failing to reach the standard before the end of 2016 are required to formulate a plan on how to reach such standard, submit the same to the CBRC and reach such standard by the end of 2018 at the latest.

CBRC's Supervision of Loan Classification and Loan Loss Allowance

Commercial banks are required to formulate detailed internal procedures that clearly define the responsibilities of each relevant department with respect to loan classification, approval, review and related matters. In addition, commercial banks are required to report to the CBRC information regarding loan classification and loan loss allowance on a regular basis via quarterly report and annual report. Based on the review of these reports, the CBRC may require commercial banks to explain significant changes in loan classification and loan loss allowance levels, or to carry out further inspections. After the Administrative Measures for Loan Loss Allowance of Commercial banks took effect on January 1, 2012, the CBRC can issue risk notices to a commercial bank and require rectifications to be made accordingly if the commercial bank fails to meet the relevant minimum loan loss allowance standards for consecutive three months; the CBRC has the power to take further regulatory actions pursuant to the PRC Banking Supervision and Regulatory Law if such non-compliance lasts for consecutive six months.

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 order to be written off, a loan needs to meet the standards set by the MOF. Losses realized when writing off loans are deductible for tax purposes, but such deduction is subject to the review and approval of the tax authorities as to whether the loans were written off in compliance with the MOF's standards.

Bulk Transfer of Non-performing Assets

Pursuant to 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》) issued by the MOF and the CBRC on January 18, 2012, financial enterprises may carry out bulk transfer of their non-performing credit assets and non-credit assets generated from their business operations, including loans in the substandard, doubtful and loss categories recognized according to statutory processes and standards; written-off book assets; assets for the offsetting of debt and other non-performing assets.

Allowance and Statutory General Reserve for Impairment Losses

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

OTHER OPERATIONAL AND RISK MANAGEMENT RATIOS

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

The table below sets out our Bank's ratios as of December 31, 2011, 2012 and 2013 and June 30, 2014, calculated in accordance with the required ratios as provided in the Core Indicators (Provisional).

Risk level	Primary indicators	Secondary indicators	Requirement	Ratios of our Bank (%)			
				As of December 31,			As of June 30,
				2011	2012	2013	2014
			(%)				
Risk Level							
Liquidity Risk.	Liquidity ratio(1)	RMB	≥ 25	43.37	48.08	49.11	54.65
		Foreign Currency		100.44	136.85	128.08	26.90
	Core liabilities(2)		≥ 60	68.37	60.02	60.71	53.32
	Liquidity gap ratio(3)		≥ -10	0.97	0.72	0.53	0.51
Credit risk	Non-performing asset ratio(4)		≤ 4	0.31	0.21	0.19	0.16
		Non-performing loan ratio(5)	≤ 5	0.63	0.54	0.46	0.44
	Credit exposure to a single group customer(6)		≤ 15	8.31	9.81	13.06	8.76
		Loan exposure to a single customer(7)	≤ 10	6.23	8.18	6.44	5.54
	Overall credit exposure to related parties(8)		≤ 50	21.31	20.15	15.79	13.37
Market risk	Cumulative foreign currency exposure ratio(9)		≤ 20	1.43	0.19	0.21	0.24
Risk Cushion							
Profitability	Cost-to-income ratio(10)		≤ 45	23.97	20.80	19.00	21.17
	Return on assets(11)		≥ 0.6	1.24	1.31	1.46	1.25
	Return on capital(12)		≥ 11	28.47	26.98	27.06	21.29
Allowance Adequacy . .	Allowance adequacy ratio for asset losses(13)		>100	120	186.47	281.1	268.92
		Allowance adequacy ratio for loan losses(14)	>100	120	186.24	292	238.90
Capital adequacy	Capital adequacy ratio(15)		≥ 8	12.02	11.92	11.17	11.61
		Core capital adequacy ratio	≥ 4	8.92	9.39	10.07	9.77

Calculated as follows:

(1) Liquidity ratio = Current assets/Current liabilities x 100%. Current assets include cash, gold, surplus deposit reserve, net placement and deposits with banks and other financial institutions due within one month, interest receivable and other receivables due within one month, qualified loans due within one month, bond investments due within one month, debt securities that can be liquidated on the domestic or international secondary market at any time and other liquid assets due within one month (excluding the non-performing portion of such assets). Current liabilities include demand deposits (excluding fiscal deposits), time deposits due within one month (excluding fiscal deposits), net placements and deposits from banks and other financial institutions due within one month, issued bonds due within one month, interest payable and all kinds of payables due within one month, borrowings from the PBOC due within one month and other liabilities due within one month.

(2) Core liabilities ratio = Amount of core liabilities/amount of total liabilities x 100%. Core liabilities refer to the combined amount of time deposit with remaining maturities of three months or longer, issued debt securities and 50% of demand deposits. Total liabilities refer to total liabilities on the balance sheet prepared under PRC GAAP.

(3) Liquidity gap ratio = Liquidity gap/Amount of on- or off-balance sheet assets with maturities of 90 days or less x 100%. Liquidity gap refers to the amount of on- or off-balance sheet assets with maturities of 90 days or less minus the amount of on- or off-balance sheet liabilities with maturities of 90 days or less.

(4) Non-performing asset ratio = Amount of non-performing assets subject to credit risk/Amount of assets subject to credit risk x 100%. Non-performing credit risk assets include non-performing loans and other credit risk assets categorized as non-performing. The categorization of non-loan credit risk assets is in accordance with relevant CBRC regulations.

(5) Non-performing loan ratio = Amount of non-performing loans/Amount of total loans x 100%. Non-performing loans refer to loans in the substandard, doubtful and loss categories according to the PBOC and the CBRC's five category loan classification system.

(6) Credit exposure to a single group customer = Total credit granted to the largest group customer/Net capital x 100%. Largest group customer refers to the single group customer granted the highest credit limit at the end of the period.

(7) Loan exposure to a single customer = Total loans to the largest customer/Net capital x 100%. Largest customer refers to the customer with the highest amount of loans outstanding at the end of the period.

(8) Overall credit exposure to related parties = Total granted credit limit to all related parties/Net capital x 100%. Related parties refer to parties defined in the Administrative Measures on Connected Transactions with Insiders and Shareholders of Commercial Banks (《商業銀行與內部人和股東關聯交易管理辦法》). Total granted credit limit to all related parties refers to total credit limit granted to such parties minus cash deposit guarantees and collateral in the form of bank deposits and Chinese government bonds.

(9) Cumulative foreign currency exposure ratio = Amount of cumulative foreign currency exposure/Net capital x 100%. Cumulative foreign currency exposure refers to exchange rate sensitive foreign currency assets subtracted by exchange rate sensitive foreign currency liabilities.

(10) Cost-to-income ratio = Operating expenses/Operating income x 100%.

(11) Return on assets = Net profit/average balance of assets x 100%.

(12) Return on capital = Net profit/average balance of shareholders' equity for the period x 100%.

(13) Allowance adequacy ratio for asset losses = Actual amount of allowance for assets subject to credit risk/Required amount of allowance for assets subject to credit risk x 100%.

(14) Allowance adequacy ratio for loan losses = Actual amount of allowance for loans/Required amount of allowance for loans x 100%.

(15) Capital adequacy ratio = (Capital - capital deductions)/(Risk-weighted assets + 12.5 x capital charge for market risk). Core capital adequacy ratio = (Core capital - core capital deductions)/(Risk-weighted assets + 12.5 x capital charge for market risk). Since 2013, we have also calculated and disclosed the capital adequacy ratios according to the Capital Administrative Measures. Under the Capital Administrative Measures, capital adequacy ratio = (Total capital - corresponding capital deductions) /risk-weighted assets; tier 1 capital adequacy ratio = (tier 1 capital - corresponding capital deductions) /risk-weighted assets; core tier 1 capital adequacy ratio = (core tier 1 capital - corresponding capital deductions)/risk-weighted assets. According to the Capital Administrative Measures, as of June 30, 2014, our bank's capital adequacy ratio, tier 1 capital adequacy ratio, and core tier 1 capital adequacy ratio were 11.61%, 9.77% and 9.77%, respectively.

As at June 30, 2014, the Bank's core liabilities ratio was 53.32%, which did not meet the criteria for eligibility (60% or above) as set out in the Core Indicators (Provisional). This is primarily due to the diversification of our financing channels, the constantly increasing proportion of non-deposit liabilities of banks and other financial institutions in our total liabilities and the fact that the total core deposits accounted for 69.68% only in our total liabilities. In addition, as at 30 June 2014, our liquidity gap ratio was 0.51% and the RMB liquidity ratio was 54.65%, both can meet the requirement as set out in the Core Indicators (Provisional). In order to comply with the requirements on the core liabilities ratio, we plan to (1) strengthen our deposit marketing efforts so as to increase our core liabilities; and (2) gradually adjust our debt structure during the course of business operation and reduce the proportion of the Bank's non-deposit liabilities. The Bank anticipates to comply with the core liabilities ratio by the end of 2015. According to Tian Yuan Law Firm, our legal advisor on PRC law, Core Indicators (Provisional) did not prescribe any penalties for non-compliance with the core liabilities ratio set forth herein. As set forth in the Core Indicators (Provisional), the core indicators for risk monitoring contained in the Core Indicators (Provisional) is a set of references for evaluation, monitoring and early warning of the risks in commercial banks, however, they do not constitute a direct basis for administrative punishment, unless otherwise specified in laws, administrative regulations and departmental rules. According 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)》) (CBRC Order [2014] No.2), liquidity risk indicators of commercial banks include regulatory requirement indicators and monitoring reference indicators which are used to analyze and evaluate liquidity risk. Core liability ratio is one of the monitoring reference indicators for liquidity risk. In addition, failing to meet the core liabilities ratio does not necessarily lead to any direct and significant liquidity risk. Therefore, failing to comply with the core liabilities ratio in the past has not resulted in, and is not expected to result in any punishment on us or otherwise have any material adverse effect on our financial position. However, pursuant to the Core Indicators (Provisional), the CBRC may conduct regulatory interview with or issue risk warning to the relevant banks based on its analysis on the data provided by the commercial banks. Therefore, the commercial banks failing to comply with the regulatory ratio requirements may be subject to request for interview by the CBRC or receive its risk warning. As of the Latest Practicable Date, the Bank has not received request for interview by the CBRC or its risk warning. However, under normal circumstances, the CBRC will not impose restrictions on the commercial activities of the commercial banks or require them to adjust the volume of specific assets or liabilities simply because they do not meet the requirements on certain liquidity ratios. Therefore, we believe that failure to comply with the core liabilities ratio will not have a direct adverse effect on our financial performance.

In addition, the Core Indicators (Provisional) sets out guidance on other ratios, including ratios relating to interest rate risk sensitivity, operational risk and loan migration. The CBRC may provide the regulatory requirement for those ratios in the future.

During the Track Record Period and up to the Latest Practicable Date, other than the core liabilities ratio as of June 30, 2014, we complied with the relevant ratio requirements under the Core Indicators (Provisional). In addition, the PRC Commercial Banking Law requires that the loan-to-deposit ratio of commercial banks may not exceed 75%. As of December 31, 2011, 2012 and 2013 and June 30, 2014, our loan-to-deposit ratio was 57.37%, 54.87%, 50.75%, and 49.92%, respectively. We will disclose any non-compliances with regulatory requirements in our interim and annual reports after the Listing.

CORPORATE GOVERNANCE AND INTERNAL CONTROLS

Corporate Governance

The PRC Company Law, the PRC Commercial Banking Law and other laws, regulations and regulatory documents provided specific requirements for corporate governance. Among them, the Guidelines on Corporate Governance of Commercial Banks (《商業銀行公司治理指引》), which were issued by the CBRC on July 19, 2013, require 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. The guidelines also require commercial banks to abide by the principles of independent operation, effective checks and balances, mutual cooperation and coordinated running, and establish reasonable incentive and restraint mechanisms in order to achieve reasonability and efficiency in decision-making, execution and supervision.

As for the composition of the board of directors, according to Guidelines on the Duties of the Board of Directors of Joint Stock Commercial Banks (Provisional) (《股份制商業銀行董事會盡職指引(試行)》) issued by the CBRC, a commercial bank with a registered capital exceeding RMB1 billion is required to have at least three independent directors. As for the composition of the supervisory board, according to the Guidelines on the Functioning of Supervisory Board of Commercial Banks (《商業銀行監事會工作指引》) issued by the CBRC, the proportion of employees representative supervisors or that of external supervisors cannot be less than one-third of the supervisory board. In addition, the Guidelines on Independent Directors and External Supervisors of Joint Stock Commercial Banks (《股份制商業銀行獨立董事和外部監事制度指引》) require that the board of directors of a commercial bank should have at least two independent directors and the supervisory board should have at least two external supervisors. According to the Measures for Evaluating the Performance of Directors of Commercial Banks (Provisional) (《商業銀行董事履職評價辦法(試行)》), commercial banks are required to evaluate the performance of their directors in accordance with applicable laws, regulations and rules. According to the Supervisory Guidelines on Sound Compensation in Commercial Banks (《商業銀行穩健薪酬監管指引》), commercial banks are required to establish a compensation mechanism in line with the cultivation of talents and risk control.

Internal Controls

Under the Internal Control Guidelines for Commercial Banks (《商業銀行內部控制指引》) issued by the CBRC in 2007, commercial banks are required to establish internal controls to ensure effective risk management for their business activities. PRC commercial banks are also required to establish a risk management department that formulates and implements risk management system, methods and procedures. In addition, an internal audit department should also be established to independently supervise and evaluate various aspects of all departments, positions and businesses.

In June, 2006, the CBRC issued the Guidelines on Internal Audit for Banking Financial Institutions (《銀行業金融機構內部審計指引》) which became effective on July 1, 2006. Pursuant to the guidelines, commercial banks are required to establish an audit committee of the board with at least three members, a majority of whom must be non-executive directors. Banks are also required to have an Internal Audit Department with employees who meet professional qualifications, which shall in principle represent 1% of the bank's total number of employees. The guidelines set forth the required scope of the Internal Audit Department. Banks are required to evaluate the risk of each business unit at least once per year and conduct internal audit of each business unit at least once every two years. The number of employees responsible for our internal auditing function is based on our risk management demand. As of June 30, 2014, we had 60 internal audit employees, representing 1.6% of our total number of employees.

On May 22, 2008, the Basic Rules on Enterprise Internal Control (《企業內部控制基本規範》) were issued jointly by the MOF, the CBRC, the NAO, the CSRC and the CIRC and became effective on July 1, 2009. The rules require enterprises to establish and implement internal control systems, utilize information technology to strengthen internal control and establish information systems addressing their operational and management needs, among other matters.

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

Information Disclosure Requirements

Pursuant to the Measures for the Information Disclosure of Commercial Banks (《商業銀行信息披露辦法》) and the Guidelines on Corporate Governance of Commercial Banks (《商業銀行公司治理指引》) issued by the CBRC on July 3, 2007 and July 19, 2013, respectively, a PRC commercial bank is required to publish an annual report (including an audited financial report) 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 information. Disclosure documents include periodical reports, interim reports and other relevant materials. 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.

Transactions with Related Parties

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》) issued by the CBRC in April 2004, which provided stringent and detailed requirements on the related party transactions of PRC commercial banks, require PRC commercial banks to adhere to the principles of honesty and fairness in conducting related party transactions. PRC commercial banks are not allowed to grant unsecured loans to related parties. Under PRC laws and regulations, related party transactions of commercial banks are required to be based on 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 for related party transactions.

Pursuant to these measures, commercial banks must submit to the CBRC, on a quarterly basis, status reports regarding their related party transactions, and must disclose information relating to related parties and related party transactions in the notes to their financial statements. Furthermore, the board of directors of commercial banks is required to report specifically on the implementation of the management of related party transactions and such related party transactions annually to the shareholders' general meeting. The CBRC has the power to take actions against the bank and/or the related parties, including ordering rectification of the non-compliance, imposing limitations on shareholders' rights, ordering transfer of shares, ordering change of directors or senior management and imposing fines.

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

RISK MANAGEMENT

Since its inception, the CBRC has published, in addition to guidelines concerning 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 and a supervisory rating system. For the guidelines concerning loans and credit to certain specific industries and customers and measures in respect of the implementation of Basel Accords, see "– Regulation of Principal Commercial Banking Activities – Lending" and "– Supervision Over Capital Adequacy – Introduction of the New Leverage Requirements – Basel Accords". The CBRC also issued the Core Indicators (Provisional) as a basis of supervising the risk management of PRC commercial banks. The CBRC established requirements for certain ratios relating to risk levels and risk provisions in the Core Indicators (Provisional) and is expected to establish requirements for certain ratios relating to risk mitigation for the purpose of evaluating and monitoring the risks of PRC commercial banks. See "– Other Operational and Risk Management Ratios". The CBRC periodically collects data through off-site surveillance to analyse such indicators and evaluate and issue early warnings of the risks on a timely basis.

Operational Risk Management

On March 22, 2005, the CBRC issued the Circular on Strengthening Control of Operational Risk (《關於加大防範操作風險工作力度的通知》) to further strengthen PRC commercial banks' ability to identify, manage and control operational risks. Under this Circular, commercial banks are required to establish internal policies and procedures specifically for the management and control of operational risks. A bank's internal audit department and business operations department are required to conduct independent and ad hoc reviews and examinations of the bank's business operations from time to time, as well as ongoing reviews and examinations for business areas involving a greater degree of operational risks. Moreover, a commercial bank's headquarters is required to assess the implementation of, and compliance with, its internal policies and procedures on operational risks.

In addition, the Circular sets out detailed requirements relating to, among other things: establishing a system under which officers at junior level responsible for business operations are required to rotate on a regular basis and have compulsory leave; establishing a system to encourage employees to fully comply with applicable regulations and internal rules and policies; improving the regular checking of account balances between PRC commercial banks and their customers; improving the timely checking of the banks' internal accounting; segregating persons responsible for bookkeeping from those responsible for account reconciliation; and establishing a system to strictly control and manage the use and keeping of chops, specimen signatures and evidential vouchers.

Furthermore, on May 14, 2007, the CBRC issued the Guidelines on Operational Risk Management of Commercial Banks (《商業銀行操作風險管理指引》) to enhance the risk management abilities of the PRC Commercial banks. These guidelines mainly address, among other things, the supervision and controls of the board of directors, responsibilities of senior management, proper organizational structure, and operational risk management policies, approaches, procedures and rules in relation to capital requirement for operational risks of provisions. Those policies and procedures are required to be submitted to the CBRC for filing. If a significant operational risk occurs and the commercial bank fails to adopt effective corrective measures within a specified period, the CBRC has the power to take relevant regulatory measures.

Market Risk Management

On December 29, 2004, the CBRC promulgated the Guidelines on the Market Risk Management of Commercial Banks (《商業銀行市場風險管理指引》), which became effective on March 1, 2005, to strengthen the market risk management of PRC commercial banks. These guidelines mainly address, among other things: (i) the responsibilities of the board of directors and the senior management in supervising market risk management; (ii) the policies and procedures for market risk management; (iii) the detection, quantification, monitoring and control of market risk; (iv) the responsibilities for internal control and conducting external audits; and (v) appropriate capital allocation mechanism for market risks. Under these guidelines, commercial banks are required to have official policies and procedures in writing in respect of the management of market risks.

In addition, the Capital Administrative Measures provide for the basic criteria, approval procedure and other requirements pursuant to which commercial banks may adopt the internal model to measure their market risk capital.

Compliance Risk Management

In order to strengthen the compliance risk management of commercial banks and maintain the safety and stability of the operations of PRC commercial banks, the CBRC promulgated the Guidelines on Compliance Risk Management of commercial Banks (《商業銀行合規風險管理指引》) on October 20, 2006. These guidelines have clarified the responsibilities of the board of directors and the senior management of a PRC commercial bank with respect to compliance risk management, standardized the organizational structure for compliance risk management and set out the regulatory mechanisms for a bank's risk management.

Liquidity Risk Management

In order to strengthen the liquidity risk management and maintain the safe and stable operation of PRC commercial banks, the CBRC issued the Notice on Further Strengthening the Supervision of Liquidity Risk of Commercial Banks by the General Office of the CBRC (《中國銀監會辦公廳關於進一步加強商業銀行流動性風險監管的通知》) in February 2010, which introduced the new liquidity risk measuring indices, such as liquidity coverage ratio and new stable funding ratio, and required that PRC commercial banks to strengthen the measurement and management of liquidity risk, optimize the asset-liability allocation, reduce the maturity mismatch and decrease the possibility and impact of liquidity shortfalls.

In addition, 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)》) (CBRC Order [2014] No.2) issued by the CBRC on January 17, 2014, which became effective on March 1, 2014, mainly address, among other things: (1) the liquidity risk management responsibilities of a commercial bank's board of directors, senior management, board of supervisors and specialized internal department in charge of liquidity risk management; (2) the strategy, policy and procedure of liquidity risk management; (3) the identification, measurement, supervision and control of liquidity risk; and (4) the calculation methods of liquidity coverage ratio, loan-to-deposit ratio and liquidity ratio, and it is also stated that the PRC commercial banks' liquidity coverage ratios must reach 100% by 2018. According 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)》), the CBRC should apply regulatory requirement indicators and monitoring reference indicators in its supervision and management of the liquidity risk level and liquidity risk management of commercial banks. In particular, loan-to-deposit ratio and liquidity ratio are regulatory requirement indicators for liquidity risk and liquidity gap ratio and core liability ratio are monitoring reference indicators for liquidity risk. On June 30, 2014, the CBRC released the Notice on Adjusting the Calculation of Loan-to-Deposit Ratio for Commercial Banks (《中國銀監會關於調整商業銀行存貸比計算口徑的通知》) to adjust the rules for calculating the loan-to-deposit ratio beginning from July 1, 2014.

Management of Other Risks

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

On September 11, 2014, the General Office of the CBRC, General Office of the Ministry of Finance and General Office of the People's Bank of China jointly issued the Notice on Issues Concerning Strengthening Management of Deposit Deviation of Commercial Banks (《關於加強商業銀行存款偏離度管理有關事項的通知》). By setting up a deposit deviation indicator, it aims to prevent banks from "scrambling to meet regulatory deposit level" by requiring deviations in deposits at the end of each month not to exceed 3%. Deviations in deposits at the end of the month = ("balance of various deposits on the last day of the month" minus "average daily deposit of the month") divided by "average daily deposit of the month" multiplied by 100%.

Supervisory Rating System

Joint-stock commercial banks in the PRC are subject to evaluation by the CBRC based on a provisional supervisory rating system. Under this system, the capital adequacy, asset quality, management quality, profitability, liquidity and exposure to market risk, etc., of joint-stock commercial banks are evaluated and scored by the CBRC on a continuous basis. Each bank is classified into one of six supervisory rating categories based on the scores. The results of ratings will serve as the basis for the regulatory authorities to implement their classified supervision and supervisory measures.

OWNERSHIP AND SHAREHOLDER RESTRICTIONS

Regulations on Equity Investment in Banks

Any natural or legal person intending to acquire 5% or more of the total equity interest of a city commercial bank is required to obtain prior approval by the CBRC or its branches. All enterprises outside the province where the city commercial bank is registered intending to acquire equity interest of such bank are also required to obtain prior approvals by the CBRC or its branches. If any existing shareholder of a commercial bank increases its shareholding in excess of the 5% threshold or any enterprise from outside the bank's residence province becomes the bank's shareholder without obtaining the CBRC's prior approval, that shareholder will be subject to the sanctions of the CBRC or its branches, which include, among others, rescission of the acquisition and disgorgement of profits by that shareholder, if any, and fines.

Under the Measures for the Administration of the Investment and Shareholding in Chinese-funded Financial Institutions by Foreign Financial Institutions (《境外金融機構投資入股中資金融機構管理辦法》), foreign financial institutions that meet certain conditions can make investments or hold shares in PRC domestic commercial banks, subject to the CBRC's approval. However, no single foreign financial institution may own 20% or more of the equity interest of such a bank. In addition, if foreign investment in the aggregate exceeds 25% of the total equity interest in a non-listed PRC commercial bank, such bank will be regulated as a foreign-invested bank. Listed PRC commercial banks are regulated as PRC banks even if foreign investment in the aggregate exceeds 25% of their total equity interest.

CBRC issued the Implementation Opinions on Encouraging and Guiding the Entry into Banking Industry by Non-governmental Capital (《關於鼓勵和引導民間資本進入銀行業的實施意見》) in 2012 to support private enterprises to participate in commercial banks' capital increase and to encourage and guide non-governmental capital to participate in the restructuring of city commercial banks. Private enterprises which participate in city commercial banks' risk disposal can have a shareholding interest of more than 20%. The General Office of the State Council issued the Guidelines of the General Office of the State Council on Financial Support for the Adjustment, Transformation and Upgrading of Economic Structures (《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》) in 2013 to support non-governmental capital to invest in financial institutions and to participate in their restructuring and reconstruction, and to attempt to have non-government capital to promote and establish private banks which assume their own risks.

Restrictions on Shareholders

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

In addition, the PRC Company Law and relevant CBRC rules and regulations impose certain restrictions on the ability of a commercial bank's shareholders to pledge their shares. For example, a commercial bank may not accept its own shares as collateral. According to the Guidelines on Corporate Governance of Commercial Banks: (i) any shareholder of a commercial bank must give prior notice to the board of directors of the bank if it wishes to pledge its shares as collateral; and (ii) where the balance of loans extended by a commercial bank to its shareholder exceeds the audited net value of his or her equity (under PRC GAAP) for the preceding year, the shareholder cannot use his or her stake in the bank as pledge. In November 2013, the CBRC issued 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抵押管理的通知》), 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 Guidelines on Corporate Governance of Commercial Banks: (i) 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; (ii) upon the registration of pledge of equity interests, the shareholders 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 (iii) 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.

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 participating in the formulation of the anti-money laundering rules and regulations for financial institutions and requires financial institutions to establish sound internal control systems regarding anti-money laundering. To facilitate the implementation of the PRC Anti-money Laundering Law, the PBOC issued the Anti-Money Laundering Regulations for Financial Institutions (《金融機構反洗錢規定》) which became effective on January 1, 2007. In accordance with those regulations, commercial banks are required to establish an internal anti-money laundering procedure and either establish an independent anti-money laundering department or designate a relevant department to implement their anti-money laundering procedures. In accordance with the Administrative Measures for the Financial Institutions' Report of Large-Sum Transactions and Doubtful Transactions (《金融機構大額交易和可疑交易報告管理辦法》) issued by the PBOC which became effective on March 1, 2007, upon the detection of any suspicious transactions or transactions involving large amounts, PRC commercial banks are required to report the transactions to the Anti-money Laundering Information Center. Where necessary and pursuant to appropriate judicial proceedings, PRC commercial banks are required to cooperate with government authorities in preventing money laundering activities and in freezing assets. The PBOC supervises and conducts on-site examinations of commercial banks' compliance with its anti-money laundering regulations and may impose penalties for any violations thereof in accordance with the PRC Anti-Money Laundering Law and Anti-Money Laundering Regulations for Financial Institutions. Commercial banks are required to establish a customer identification system in accordance with the Measures on the Administration of Client Identity Identification and Materials and Transaction Recording of Financial Institutions (《金融機構客戶身份識別和客戶身份資料及交易記錄保存管理辦法》) promulgated jointly by the PBOC, the CBRC, the CSRC and the CIRC which became effective on August 1, 2007. Commercial banks are also required to record the identities of all customers and the information relating to each transaction, and keep personal transaction records and documents.

OTHER REQUIREMENTS

Use of Funds

Under the PRC Commercial Banking Law, commercial banks are not permitted to engage in trust investment or securities investment business, or invest in real property other than for their own use, or invest in non-banking financial institutions and enterprises, unless otherwise approved by the relevant government authorities. The use of funds by commercial banks is limited to the following:

- short-term, medium-term and long-term loans;
- acceptance and discounts on instruments;
- inter-bank loans;

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

Upon approvals by the CBRC and other relevant authorities, commercial banks may invest their funds in domestic insurance companies, fund management companies and financial lease companies.

Periodic Reporting Requirements

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

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

REGULATORY AND SHAREHOLDER'S APPROVALS

We have obtained our shareholder's approval for the proposed listing. Please refer to Appendix VII – "Statutory and General Information – 1. Further Information about Our Bank – D. Resolution of Our Shareholders".

We have also obtained all necessary PRC regulatory approvals for the proposed listing, including the CBRC approval on April 3, 2014 and the CSRC approval on November 26, 2014.

OUR HISTORY

We were incorporated as a joint-stock commercial bank in the PRC on September 10, 1997 under the name of Shenyang City Cooperative Bank Co., Ltd. (瀋陽城市合作銀行股份有限公司) through the consolidation of 33 urban credit cooperatives (including Shenyang Cooperative Bank (瀋陽合作銀行)) in Shenyang, Liaoning Province and capital injections by Shenyang Finance Bureau and the other 15 corporate investors. The shareholders of these 33 urban credit cooperatives (including 130 corporate shareholders and 3,502 individual shareholders) together with the 16 new investors (including Shenyang Finance Bureau) were our promoters and founding shareholders. Key milestones in our history are summarized below:

November 1996	The PBOC approved our establishment.
September 1997	We were officially incorporated under the name of "Shenyang City Cooperative Bank Co., Ltd." (瀋陽城市合作銀行股份有限公司).
June 1998	We were renamed as "Shenyang Commercial Bank Co., Ltd." (瀋陽市商業銀行股份有限公司).
May 1999	We issued our first debit card, the "Rose Debit Card" (玫瑰借記卡), making us one of the first few city commercial banks to issue debit cards in China.
February 2003	We obtained approval to launch our bill acceptance business.
July 2005	We issued our first RMB credit card, the "Rose Credit Card" (玫瑰信用卡), making the first city commercial bank in Northeast China to issue credit cards, and one of the first few city commercial banks to provide credit card services in China.
January 2007	We obtained approval to launch our foreign exchange business.
February 2007	We were renamed as "Shengjing Bank Co., Ltd." (盛京銀行股份有限公司).
May 2007	Our deposit balance exceeded RMB50 billion.
July 2007	We set up our Tianjin Branch, our first branch outside Liaoning Province, and located in municipality, which made us the first city commercial bank in Northeast China with cross-region operations.

June 2009	We set up our Beijing Branch so as to operate in both municipalities in the Bohai Economic Rim.
December 2009	Our deposit balance exceeded RMB100 billion.
October 2010	We launched our new core business system to further integrate our financial system and settlement system, enabling our information system to better meet the needs of the three-level management comprising the head office, branches and sub-branches, and cross-region operations.
January 2011	We set up our Shanghai Branch, our first branch in Yangtze River Delta Economic Zone in the PRC.
November 2012	We launched our financial IC card system to better protect the funds of our Bank and our clients.
November 2012	Our deposit balance exceeded RMB200 billion.
July 2013	We established and promoted our financial service stations (金融便民服務站) in Shenyang and other cities in Liaoning Province as well as in Beijing, Shanghai, Tianjin and Changchun.
Late 2013	Our branch network covered 10 of the 14 major cities in Liaoning Province.
2014	We effectively established a comprehensive electronic banking service system with the introduction of, among others, internet banking and mobile banking.
September 2014	We ranked first among city commercial banks with total assets of over RMB200 billion in the year of 2013 and were rewarded as the "Best City Commercial Bank" in the "Evaluation Report of the Competitiveness among PRC Commercial Banks of 2014" published by The Chinese Banker.

Increase of Registered Capital

Upon incorporation, the registered capital of the Bank was RMB216,275,200, among which Shenyang Finance Bureau contributed RMB20,000,000 and the other 15 corporate investors contributed an aggregate of RMB8,873,000 in cash, respectively, and the shareholders of the 33 urban credit cooperatives contributed with net assets of the urban credit cooperatives. After several rounds of registered capital increase and introduction of new shareholders, our registered capital was increased to RMB4,396,005,200 as of the Latest Practicable Date. The major changes in our registered capital and our shareholders are summarized as follows:

1997-2000	Our registered capital was increased from RMB216,275,200 to RMB244,325,200 primarily due to the net results of (i) additional capital contributions by Shenyang Special Environmental Protection Equipment Manufacturing Co., Ltd. and Shenyang Finance Bureau; and (ii) deduction of a certain amount of share capital that was double counted into the share capital upon our establishment. The registration of such changes has been completed with Shenyang Administration Bureau for Industry and Commerce.
2006	We issued a total of 2,755,680,000 new shares to 16 new corporate shareholders (including Shenyang Hengxin, Huibao International and Zhongyou Tianbao), raising a total amount of RMB3,516,384,000 to replenish our capital and further expand our business scale. We completed the registration of such changes with Shenyang Administration Bureau for Industry and Commerce in June 2006. By then, our registered capital had been increased to RMB3,000,005,200.
2008	We issued 396,000,000 new shares to eight new corporate shareholders (including Xinhu Zhongbao), raising a total amount of RMB584,000,000 to replenish our capital and further expand our business scale. We completed the registration of such increase of registered capital with Shenyang Administration Bureau for Industry and Commerce in June 2008. By then, our registered capital had been increased to RMB3,396,005,200.

2011	In order to replenish our capital and further expand our business scale, we issued 300,000,000 new shares to Founder Securities, raising a total amount of RMB1,500 million. We completed the registration of such change in registered capital with Shenyang Administration Bureau for Industry and Commerce in December 2011. By then, our registered capital had been increased to RMB3,696,005,200.
2013 to 2014	We issued 700,000,000 new shares to five new corporate shareholders, namely Beijing Zhaotai, Beijing Aojitong Investment (Group) Co., Ltd., Dalian Hesheng Holding Co., Ltd., Changchun Qianyuan Real Estate Development and Construction Co., Ltd. and Dalian Hydraulic Machinery Co., Ltd., raising a total amount of RMB3,850 million to replenish our capital and further expand our business scale. We completed the registration of such increase of registered capital with Shenyang Administration for Industry and Commerce in May 2014. By then, our registered capital had been increased to RMB4,396,005,200.

Disposal and Write-Off of Non-Performing Assets

In order to dispose of non-performing loans inherited historically, according to the arrangement made and approved by Shenyang Municipal People's Government in relation to our Bank's disposal of non-performing assets in June 2004, which was also approved by the CBRC, we disposed of non-performing loans of an aggregate principal amount of RMB2,000 million to Shenyang City Construction, an independent third party, for a consideration of RMB2,000 million. Our Bank also extended a loan to Shenyang City Construction for it to purchase such non-performing assets. According to the documents issued by Shenyang Municipal People's Government regarding its continued support for the disposal of our Bank's non-performing assets, on March 26, 2008, we entered into an agreement (the "Tripartite Agreement") with Shenyang City Construction and Shenyang Hengxin, pursuant to which, among others, (i) we agreed to extend a loan in the amount of RMB1,723 million (such loan is classified as "Other Receivables" as the loan is interest-free) (the "Relevant Receivables") to Shenyang City Construction for it to refinance the outstanding balance of the loan granted to it for its purchase of our Bank's non-performing assets in 2004, and Shenyang City Construction agreed to repay the Relevant Receivables; (ii) Shenyang Hengxin agreed to provide guarantee for the repayment of the Relevant Receivables; and (iii) Shenyang Hengxin agreed that such non-performing assets would be transferred to it and it would repay the Relevant Receivables using the proceeds from future disposal of the Shares it held. As of the Latest Practicable Date, the outstanding balance of the Relevant Receivables was approximately RMB756 million and we have made a provision of RMB62 million for the Relevant Receivables based on the time value of monies, which is the difference between the outstanding balance of the Relevant Receivables and the present value of the Relevant Receivables. The present value of the Relevant Receivables is determined based on the expected settlement time of the Relevant Receivables of within two years from the Listing Date, and a discount rate of approximately 4.4% (determined with reference to government bond yields and interest rates on deposits).

After discussion among our Bank, Shenyang City Construction and Shenyang Hengxin regarding the repayment of the outstanding balance of the Relevant Receivables, on October 8, 2014, Shenyang Hengxin irrevocably undertook to us as follows (the "Undertaking"): (1) Shenyang Hengxin will continue to perform its obligations under the Tripartite Agreement (including using the proceeds from disposal of a portion of the Shares it held after the Listing to repay the outstanding balance of the Relevant Receivables) to repay the outstanding balance of the Relevant Receivables in full within two years from the Listing Date; (2) except that Shenyang Hengxin may not transfer the Shares within one year from the Listing Date according to relevant PRC laws, there is no other restriction on disposal or sale of the Shares held by it under the PRC laws and regulations, and, without our written consent, Shenyang Hengxin will not dispose of any Shares it held or create any encumbrances on such Shares prior to the full repayment of the outstanding balance of the Relevant Receivables. As a result, if Shenyang City Construction does not repay the outstanding balance of the Relevant Receivables in full, Shenyang Hengxin will need to use the proceeds from disposal of a portion of the Shares it holds to repay any such Relevant Receivables within two years from the Listing Date. As of the Latest Practicable Date, Shenyang Hengxin held 480,000,000 Domestic Shares of our Bank. As of December 31, 2013, the audited net assets (under PRC GAAP) of Shenyang Hengxin was RMB11,960 million and the net profits of Shenyang Hengxin in 2013 was RMB537.4 million. Based on (i) the Undertaking; (ii) the financial position of Shenyang Hengxin; and (iii) the value of the Domestic Shares of our Bank held by Shenyang Hengxin, we consider that we can recover in full the Relevant Receivable and the provision of RMB62 million is sufficient.

Issuance of Subordinated Bonds

In November 2008, following the receipt of approvals from the CBRC and the PBOC, we issued ten-year-term subordinated bonds with an aggregate principal amount of RMB1,200 million on the inter-bank bond market, which bear interest on an annual basis. The annual interest rate for the first five years is fixed at 5.50%, and if the bonds are not redeemed by the expiry of the first five-year period, the interest rate for the next five-year period will be increased by 2.50%. These bonds were redeemed in full in 2013.

In November 2011, in order to improve our capital adequacy ratio and optimize our capital structure, following the receipt of approvals from the CBRC and the PBOC, we issued ten-year-term subordinated bonds with an aggregate principal amount of RMB900 million on the inter-bank bond market with a fixed interest rate of 6.50% per annum payable on an annual basis. These bonds are redeemable in full or partially at our discretion at the end of the fifth year subject to the CBRC's approval.

In May 2014, in order to further improve our capital adequacy ratio and optimize our capital structure, following the receipt of approvals from the CBRC and the PBOC, we issued ten-year-term Tier 2 capital bonds with an aggregate principal amount of RMB2,200 million on the inter-bank bond market with a fixed interest rate of 6.18% per annum payable on an annual basis. These bonds are redeemable in full or partially at the end of the fifth year subject to the CBRC's approval.

APPLICATION FOR A SHARE LISTING

We intend to raise capital from the capital markets through an initial public offering. Accordingly, in September 2010, we submitted an application to the CSRC for the proposed listing of our shares on the Shanghai Stock Exchange and the CSRC had, in September 2010, formally accepted the listing application for consideration. Since then, our A-share listing application had been at the stage of "accepted for review" by the CSRC. According to the CSRC's review process of A-share listing applications, our A-share listing application had not progressed into the stage of the CSRC providing comments on our application and the CSRC has neither provided any comment on nor raised any concern or question about our A-share listing application. The CSRC issued two letters to the sponsor to our A-share listing application in March 2013 and August 2014, respectively, requesting it to investigate certain matters concerning us which include: (i) whether the disclosure of risk measurement in our annual reports was sufficient; (ii) our withholding and payment of individual income tax derived from the appreciation of net asset value of the original credit cooperatives on behalf of our certain individual shareholders in 1998, and whether the withholding and payment had given rise to any disputes or affected the stability of the current shareholding; and (iii) the holding of employee-shares by non-employee shareholders. We and the relevant intermediary parties involved in the A-share listing application have responded to the CSRC on the matters requested to be investigated in the two letters and have considered that we have complied with the relevant laws and regulations in all material respects. Up to the Latest Practicable Date, we had not received any further enquiries from the CSRC in relation to the matters stated in the aforesaid letters.

Since 2008, no PRC city commercial banks have obtained any A-share listing approval from the CSRC. Since 2013, three PRC city commercial banks have obtained the CSRC's approval for H-share listing. In light of the condition of the capital markets, as well as our need as a commercial bank to replenish our capital from time to time, we decided to submit our H-share listing application. We decided to list our H Shares not because CSRC had found anything unfavorable with respect to our A-share listing application or our A-share listing application was rejected, but because of our Bank's need to replenish its capital taking into consideration of the capital market conditions. We have not been required by any regulatory authorities to replenish our capital before we can make our A-share listing application. We had in October 2014 made a filing to the Hong Kong Stock Exchange for an H-share listing, and in November 2014, we submitted an application to the CSRC to suspend our A-share listing application review process, which the CSRC has approved. On November 26, 2014, the CSRC approved our Global Offering and application to list H Shares on the Hong Kong Stock Exchange. In addition, unless otherwise specified in our Articles of Association, after the Listing of our H Shares, we will be required to obtain approval of shareholders (including holders of our H Shares) in a general meeting if the Board considers it is appropriate to resume the application process with the CSRC for A-share listing in the future.

The Sole Sponsor has conducted the following due diligence on the matters stated in the above two letters from the CSRC: (i) reviewed the publicly available information on the CSRC's website and mass media, (ii) reviewed the draft prospectus in relation to the Bank's A-share listing application, (iii) reviewed the above two letters as detailed above, (iv) reviewed the responses to the CSRC by the sponsor to the Bank's A-share listing application, (v) reviewed the views of the legal advisor and accountants to the Bank's A-share listing application, and (vi) discussed these matters with the Bank and its PRC legal advisor, Tian Yuan Law Firm, which is also the legal advisor to the Bank's A-share listing application.

Based on the above, the Sole Sponsor is of the view that, nothing has come to its attention to suggest that it would lead to a rejection of the Bank's A-share listing application by the CSRC (although the Sole Sponsor is not the sponsor to the Bank's A-share listing application), or might adversely affect the Bank's suitability for listing on the Hong Kong Stock Exchange.

OUR SHAREHOLDING AND CORPORATE STRUCTURE

Shareholding Structure

As of the Latest Practicable Date, we had 148 corporate shareholders and 3,321 individual shareholders who in aggregate hold approximately 97.23% and 2.77% of our Shares, respectively. Shenyang Hengxin is our single largest shareholder, holding 10.92% of our Shares immediately prior to the Global Offering. As of the Latest Practicable Date, there are six shareholders with individual shareholding of not less than 5% of our total issued Shares, holding in aggregate 45.71% of the share capital of our Bank. Our Directors confirm, after due and reasonable enquiries, that such six shareholders are independent from each other.

As of the Latest Practicable Date, we were unable to verify the shareholding of 33 corporate shareholders and 139 individual shareholders (including those whom we are unable to contact), holding in aggregate approximately 0.12% of our Shares. According to our PRC legal advisor, Tian Yuan Law Firm, the existence of such shareholders whom we are unable to verify their shareholding has no material adverse impact on the stability of our shareholding structure or our legitimate existence (including our Bank's ability to carry out corporate actions such as holding shareholders' general meetings and paying dividends).

Immediately before the Global Offering

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

Notes:

(1) Shenyang Hengxin is wholly owned by Shenyang Industrial Investment Development Group Co., Ltd. (瀋陽產業投資發展集團有限公司), which is in turn wholly owned by Shenyang SASAC, is one of our state-owned shareholders and the single largest shareholder of our Bank. Shenyang Hengxin is principally engaged in, without limitation to, asset management, capital operations and industrial investments.

(2) Huibao International is one of our non-state-owned corporate shareholders and is wholly owned by Beijing Jiutai Group Co., Ltd. (北京九台集團有限公司), which is in turn owned as to 70% and 30% by two individuals, Li Yuguo (李玉國), one of our non-executive Directors, and Liao Jing (廖婧), respectively. Huibao International is principally engaged in, without limitation to, investment in and construction and management of properties, mines, agriculture, tourism, port and highway construction; development and sales of real properties; leasing of real properties.

(3) Xinhu Zhongbao is one of our non-state-owned corporate shareholders and is listed on the Shanghai Stock Exchange (stock code: 600208). Xinhu Zhongbao is principally engaged in, without limitation to, industrial investments, groceries and investment management.

(4) Founder Securities is one of our non-state-owned corporate shareholders and is listed on the Shanghai Stock Exchange (stock code: 601901). Founder Securities is principally engaged in, but not limited to, securities, futures and financing business.

(5) Beijing Zhaotai is one of our non-state-owned corporate shareholders. It is owned as to 41.60% and 38.50% by Mu Qiru (穆麒茹) and Beijing Zhaotai Holding Co., Ltd. (北京兆泰控股有限公司), which is in turn owned as to 70% by Mu Qiru. Beijing Zhaotai is principally engaged in, without limitation to, investment, development and management of real properties.

(6) Zhongyou Tianbao is one of our non-state-owned corporate shareholders. It is owned as to 80%, 10% and 10% by three individuals, Liu Xinfa (劉新發), one of our non-executive Directors, Liu Xinlin (劉新林) and Liu Xinchang (劉新昌). Zhongyou Tianbao is principally engaged in, without limitation to, wholesale and retail of metal materials, electrical and mechanical equipment, etc., import and export of various kinds of goods and technologies on proprietary or agency basis.

(7) The other 142 corporate shareholders in aggregate hold approximately 51.52% of our total issued Shares. The shareholding percentages of these corporate shareholders range from approximately 0.00000909% to 4.55%.

(8) The 3,321 individual shareholders in aggregate hold approximately 2.77% of our total issued Shares. The shareholding percentages of these individual shareholders range from approximately 0.000001296% to 0.011373962%.

(9) As of June 30, 2014, we had one head office and 143 branches and sub-branches.

(10) Shenyang Shenbei Fumin Village Bank Co., Ltd. ("Shenbei Fumin Village Bank") was established on February 9, 2009. Its registered address is No. 1 Mingzhu Road, Huishan Economic Development Zone, Shenyang North New Area, Shenyang. Its registered capital is RMB150 million. The business scope of Shenbei Fumin Village Bank includes taking deposits from the public, extending short-term, medium-term and long-term loans; effecting domestic payment settlements; accepting and discounting instruments; engaging in inter-bank lending; acting as the issuance agent, the cashing agent or the underwriter of government bonds; collecting and making payment as agent; and engaging in other business as approved by the banking regulatory authorities.

As at the Latest Practicable Date, the Bank holds 20% of the equity interest in Shenbei Fumin Village Bank and is its largest shareholder, while Shenyang High-tech Venture Investment Co., Ltd. (瀋陽高新創業投資有限公司), Shenyang Shenbei Xingchuang Investment Co., Ltd. (瀋陽瀋北興創投資有限公司), Shenyang Xinyou Communications Co., Ltd. (瀋陽新郵通信設備有限公司), Shenyang Longji Logistics Development Co., Ltd. (瀋陽龍吉物流發展有限公司), Shenyang Kaicheng Housing Development Co., Ltd. (瀋陽凱城房屋開發有限公司) and Shanghai Chenyu Investment Co., Ltd. (上海晨鈺投資有限公司) each holds 10% of the registered capital of Shenbei Fumin Village Bank and Shenyang Yeqiao

Investment and Development Co., Ltd. (瀋陽業喬投資發展有限公司), Shenyang Puxing Poultry Group Co., Ltd. (瀋陽蒲興禽業集團有限公司), Shenyang Zhongyou Material Recycling Co., Ltd. (瀋陽中油物資回收再生有限公司), Li Haixia (李海霞), Yin Hongyu (尹洪禹), Wang Zexin (王澤新) and Sun He (孫赫) each holds 6.67%, 5%, 4.67%, 1%, 1%, 1% and 0.67% of the registered capital of Shenbei Fumin Village Bank, respectively. All the above-mentioned shareholders of Shenbei Fumin Village Bank are independent third parties of the Bank. The county bank has been accounted for as a subsidiary in our consolidated financial information since June 28, 2012. See "Financial Information – Financial Position – Capital Resources – Investments in Subsidiaries" and Note 21 to our consolidated financial statements set forth in Appendix I – "Accountants' Report" to this prospectus. In May 2014, we entered into a written concert party agreement with Shenyang High-tech Venture Investment Co., Ltd. (瀋陽高新創業投資有限公司), Shenyang Shenbei Xingchuang Investment Co., Ltd. (瀋陽瀋北興創投資有限公司), Shenyang Xinyou Communications Co., Ltd. (瀋陽新郵通信設備有限公司), Shenyang Kaicheng Housing Development Co., Ltd. (瀋陽凱城房屋開發有限公司), Shenyang Longji Logistics Development Co., Ltd. (瀋陽龍吉物流發展有限公司), Shenyang Yeqiao Investment and Development Co., Ltd. (瀋陽業喬投資發展有限公司) and Shenyang Zhongyou Material Recycling Co., Ltd. (瀋陽中油物資回收再生有限公司), which hold in aggregate 61.34% of the equity interest in Shenbei Fumin Village Bank, pursuant to which they confirmed that they have, since the effective date (i.e. June 28, 2012) of the revised articles of association of Shenbei Fumin Village Bank passed at its first extraordinary general meeting in 2012, voted, and undertook to continue to vote, in the same way as us in all major decision making involving the financial and operating policies of Shenbei Fumin Village Bank. Our PRC legal advisor, Tian Yuan Law Firm, is of the opinion that such concert party agreement is legally binding, valid and enforceable.

(11) Shenyang Xinmin Fumin Village Bank Co., Ltd. ("Xinmin Fumin Village Bank") was established on June 25, 2010. Its registered address is No. 60 Liaohe Avenue, Xinmin. Its registered capital is RMB30 million. The business scope of Xinmin Fumin Village Bank includes taking deposits from the public, extending short-term, medium-term and long-term loans; effecting domestic settlements; accepting and discounting instruments; engaging in inter-bank lending; engaging in bank debit card business; acting as the issuance agent, the cashing agent or the underwriting of government bond; collecting and making payment as agent and acting as insurance agent; and engaging in other business as approved by the banking regulatory authorities of the State Council.

As at the Latest Practicable Date, the Bank holds 20% of the equity interest in Xinmin Fumin Village Bank and is its largest shareholder, while Shenyang Future Realty & Property Development Co., Ltd. (瀋陽未來置業房產開發有限公司), Xinmin City State-owned Assets Operation Co., Ltd. (新民市國有資產經營有限責任公司), Shenyang Oriental Art Museum (瀋陽東方美術館), Shenyang Baochen Trading Co., Ltd. (瀋陽寶辰商貿有限公司), and Shenyang Xuxingjin Investment Guarantee Co., Ltd. (瀋陽旭興進投資擔保有限公司) each holds 10% of the registered capital of Xinmin Fumin Village Bank, and Wenzhou New Era Education Development Co., Ltd. (溫州新紀元教育發展有限公司), Shenyang Minghua Housing Development Co., Ltd. (瀋陽明華房屋開發有限公司), Zou Qingmei (鄒清梅), Zhang Haiyan (張海岩), Zhang Xingnan (張星南) and Ge Lin (葛林) each holds 5% of the registered capital of Xinmin Fumin Village Bank. All the above-mentioned shareholders of Xinmin Fumin Village Bank are independent third parties of the Bank. The county bank has been accounted for as a subsidiary in our consolidated financial information since June 28, 2012. See "Financial Information – Financial Position – Capital Resources – Investments in Subsidiaries" and Note 21 to our consolidated financial statements set forth in Appendix I – "Accountants' Report" to this prospectus. In May 2014, we entered into a written concert party agreement with Shenyang Future Realty & Property Development Co., Ltd. with (瀋陽未來置業房產開發有限公司), Xinmin City State-owned Assets Operation Co., Ltd. (新民市國有資產經營有限責任公司), Shenyang Xuxingjin Investment Guarantee Co., Ltd. (瀋陽旭興進投資擔保有限公司), Shenyang Minghua Housing Development Co., Ltd. (瀋陽明華房屋開發有限公司), Zou Qingmei (鄒清梅), Zhang Haiyan (張海岩), Zhang Xingnan (張星南) and Ge Lin (葛林), which hold in aggregate 55% of the equity interest in Xinmin Fumin Village Bank, pursuant to which they confirmed that they have, since the effective date (i.e. June 28, 2012) of the revised articles of association of Xinmin Fumin Village Bank passed at its third general meeting in 2012, voted, and undertook to continue to vote, in the same way as us in all major decision making involving the financial and operating policies of Xinmin Fumin Village Bank. Our PRC legal advisor, Tian Yuan Law Firm, is of the opinion that such concert party agreement is legally binding, valid and enforceable.

(12) Shenyang Faku Fumin Village Bank Co., Ltd. ("Faku Fumin Village Bank") was established on October 26, 2010. Its registered address is Tuanjie Road, Faku Town, Faku County. Its registered capital is RMB30 million. The business scope of Faku Fumin Village Bank includes taking deposits from the

public, extending short-term, medium-term and long-term loans; effecting domestic settlements; accepting and discounting instruments; engaging in inter-bank lending; engaging in bank debit card business; acting as the issuance agent, the cashing agent or the underwriting of government bond; collecting and making payment as agent and acting as insurance agent; and engaging in other business as approved by the banking regulatory authorities of the State Council.

As at the Latest Practicable Date, the Bank holds 20% of the equity interest in Faku Fumin Village Bank and is its largest shareholder, while Faku County Assets Operation Company (法庫縣資產經營有限公司), Shenyang Jiashi Realty & Development Co., Ltd. (瀋陽嘉實置業發展有限公司), Shenyang Hunnan Realty & Development Co., Ltd. (瀋陽渾南置業發展有限公司), Shenyang Yutian Experimental High School (瀋陽市雨田實驗中學), Liaoning Aiger Investment Co., Ltd. (遼寧艾格爾投資有限公司), Shenyang AoDe Culture Media Co., Ltd. (瀋陽奧德文化傳播有限公司) each holds 10% of the registered capital of Faku Fumin Village Bank and Chen Yanhong (陳燕虹), Dong Tao (董濤), Chen Lulin (陳鹿林) and Gao Hongjing (高洪靜), each holds 5% of the registered capital of Faku Fumin Village Bank, respectively. All the above-mentioned shareholders of Faku Fumin Village Bank are independent third parties of the Bank. The county bank has been accounted for as a subsidiary in our consolidated financial information since June 28, 2012. See "Financial Information – Financial Position – Capital Resources – Investments in Subsidiaries" and Note 21 to our consolidated financial statements set forth in Appendix I – "Accountants' Report" to this prospectus. In May 2014, we entered into a written concert party agreement with Faku County Assets Operation Company (法庫縣資產經營有限公司), Shenyang Yutian Experimental High School (瀋陽市雨田實驗中學), Shenyang AoDe Culture Media Co., Ltd. (瀋陽奧德文化傳播有限公司), Chen Yanhong (陳燕虹), Dong Tao (董濤), Chen Lulin (陳鹿林) and Gao Hongjing (高洪靜), which hold in aggregate 50% of the equity interest in Faku Fumin Village Bank, pursuant to which they confirmed that they have, since the effective date (i.e. June 28, 2012) of the revised articles of association of Faku Fumin Village Bank passed at its first extraordinary general meeting in 2012, voted, and undertook to continue to vote, in the same way as us in all major decision makings involving the financial and operating policies of Faku Fumin Village Bank. Our PRC legal advisor, Tian Yuan Law Firm, is of the opinion that such concert party agreement is legally binding, valid and enforceable.

(13) Shenyang Liaozhong Fumin Village Bank Co., Ltd. ("Liaozhong Fumin Village Bank") was established on November 26, 2010. Its registered address is No. 140 Zhengfu Road, Liaozhong Town, Liaozhong County. Its registered capital is RMB30 million. Liaozhong Fumin Village Bank are permitted to engage in those business as approved by the CBRC pursuant to relevant laws, administrative regulations and other regulations, and those as listed in relevant approval documents.

As at the Latest Practicable Date, the Bank holds 20% of the equity interest in Liaozhong Fumin Village Bank and is its largest shareholder, while Shenyang Xiangrun Economic & Trade Co., Ltd. (瀋陽祥潤經貿有限公司), Dalian Free Trade Zone Huangting PetroChemical Trading Co., Ltd. (大連保稅區皇廷石化貿易有限公司), Shenyang Seashore Zhongqiang Investment Co., Ltd. (瀋陽近海中強投資有限公司) and Shenyang International Logistics Development Co., Ltd. (瀋陽市國際物流發展有限公司) each holds 10% of the registered capital of Liaozhong Fumin Village Bank and Tu Zhenkai (涂振凱), Wang Ying (王影), Wang Xiaoming (王曉明), Wang Ye (王野), Shen Siwei (沈思偉), Li Changhong (李長虹), Chen Weitian (陳煒天) and Wang Deku (王德庫) each holds 5% of the registered capital of Liaozhong Fumin Village Bank, respectively. All the above-mentioned shareholders of Liaozhong Fumin Village Bank are independent third parties of the Bank. The county bank has been accounted for as a subsidiary in our consolidated financial information since June 28, 2012. See "Financial Information – Financial Position – Capital Resources – Investments in Subsidiaries" and Note 21 to our consolidated financial statements set forth in Appendix I – "Accountants' Report" to this prospectus. In May 2014, we entered into a written concert party agreement with Shenyang Xiangrun Economic & Trade Co., Ltd. (瀋陽祥潤經貿有限公司), Dalian Free Trade Zone Huangting PetroChemical Trading Co., Ltd. (大連保稅區皇廷石化貿易有限公司), Shenyang International Logistics Development Co., Ltd. (瀋陽市國際物流發展有限公司) Tu Zhenkai (涂振凱), Wang Ying (王影), Wang Xiaoming (王曉明), Wang Ye (王野), Shen Siwei (沈思偉), Li Changhong (李長虹), Chen Weitian (陳煒天) and Wang Deku (王德庫) which hold in aggregate 70% of the equity interest in Liaozhong Fumin Village Bank, pursuant to which they confirmed that they have, since the effective date (i.e. June 28, 2012) of the revised articles of association of Liaozhong Fumin Village Bank passed at its third general meeting in 2012, voted, and undertook to continue to vote in the same way as us in all major decision makings involving the financial and operating policies of Liaozhong Fumin Village Bank. Our PRC legal advisor, Tian Yuan Law Firm, is of the opinion that such concert party agreement is legally binding, valid and enforceable.

(14) Ningbo Jiangbei Fumin Rural Bank Co., Ltd. ("Jiangbei Fumin Rural Bank") was established on August 17, 2011. Its registered address is No. 18 Minquan Road, Cicheng Town, Jiangbei District, Ningbo. It

registered capital is RMB100 million. The business scope of Jiangbei Fumin Rural Bank includes taking deposits from the public, extending short-term, medium-term and long-term loans; effecting domestic settlements; accepting and discounting instruments; engaging in inter-bank lending; engaging in the bank card business (debit cards); acting as the issuance agent, the cashing agent or the underwriter of government bonds; collecting and making payments as agent.

As at the Latest Practicable Date, the Bank holds 30% of the equity interest in Jiangbei Fumin Rural Bank and is its largest shareholder, while Shanghai Kaixin Construction Engineering Co., Ltd. (上海凱鑫建設工程有限公司), Ningbo Xinya Construction Co., Ltd. (寧波新亞建設有限公司), Zhejiang Jihui Industrial Co.,Ltd. (浙江集匯實業有限公司), Zhejiang Zhetian Communications Engineering Co., Ltd. (浙江浙天通信工程有限公司) and Ningbo Jintian Cooper (Group) Co., Ltd. (寧波金田銅業(集團)股份有限公司) each holds 10% of the registered capital of Jiangbei Fumin Rural Bank, and Shenyang Yeqiao Investment and Development Co., Ltd. (瀋陽業喬投資發展有限公司), Ningbo Youli Investment Co., Ltd. (寧波友利投資有限公司) and Ningbo Fenghua Shipping Co., Ltd. (寧波市豐華船務有限公司) each holds 8%, 6% and 6% of the registered capital of Jiangbei Fumin Rural Bank, respectively. All the above-mentioned shareholders of Jiangbei Fumin Rural Bank are independent third parties of the Bank. The county bank has been accounted for as a subsidiary in our consolidated financial information since June 28, 2012. See "Financial Information – Financial Position – Capital Resources – Investments in Subsidiaries" and Note 21 to our consolidated financial statements set forth in Appendix I – "Accountants' Report" to this prospectus. In May 2014, we entered into a written concert party agreement with Shanghai Kaixin Construction Engineering Co., Ltd. (上海凱鑫建設工程有限公司), Zhejiang Jihui Industrial Co., Ltd. (浙江集匯實業有限公司), Zhejiang Zhetian Communications Engineering Co., Ltd. (浙江浙天通信工程有限公司), Shenyang Yeqiao Investment and Development Co., Ltd. (瀋陽業喬投資發展有限公司), Ningbo Youli Investment Co., Ltd. (寧波友利投資有限公司) and Ningbo Fenghua Shipping Co., Ltd. (寧波市豐華船務有限公司), which hold in aggregate 50% of the equity interest in Jiangbei Fumin Rural Bank, pursuant to which they confirmed that they have, since the effective date (i.e. June 28, 2012) of the revised articles of association of Jiangbei Fumin Rural Bank passed at its first extraordinary general meeting in 2012, voted, and undertook to continue to vote, in the same way as us in all major decision makings involving the financial and operating policies of Jiangbei Fumin Rural Bank. Our PRC legal advisor, Tian Yuan Law Firm, is of the opinion that such concert party agreement is legally binding, valid and enforceable.

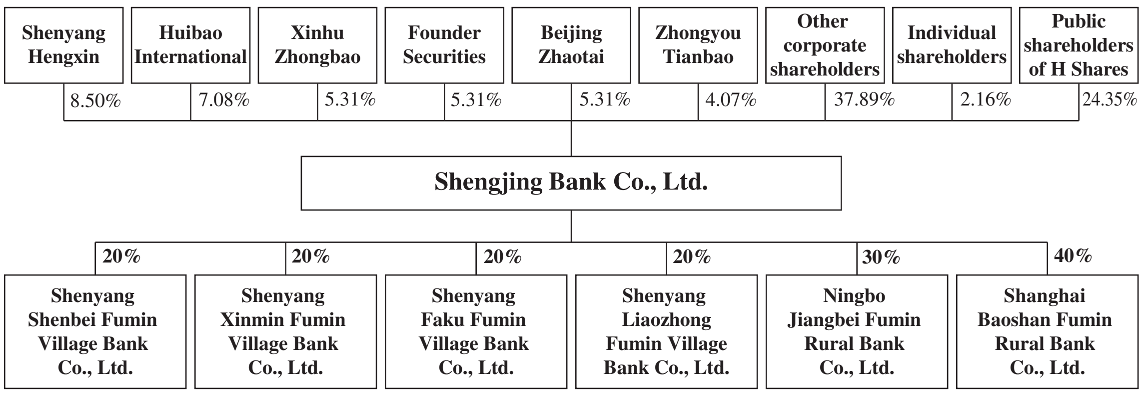
(15) Shanghai Baoshan Fumin Rural Bank Co., Ltd. ("Baoshan Fumin Rural Bank") was established on September 9, 2011. Its registered address is No. 458, Baolin Road, Baoshan District, Shanghai. Its registered capital is RMB150 million. The business scope of Baoshan Fumin Rural Bank includes taking deposits from the public, extending short-term, medium-term and long-term loans; effecting domestic settlements; accepting and discounting instruments; engaging in inter-bank lending; engaging in bank card business; acting as the issuance agent, the cashing agent or the underwriting of government bond; collecting and making payment as agent and acting as insurance agent; and engaging in other business as approved by the banking regulatory authorities.

As at the Latest Practicable Date, the Bank holds 40% of the equity interest in Baoshan Fumin Rural Bank and is its largest shareholder, while Shenyang Future Realty & Property Development Co., Ltd. (瀋陽未來置業房產開發有限公司), Shanghai Changxin Group Co., Ltd. (上海昌鑫(集團)有限公司), Shanghai Jinrui Construction Group Co., Ltd. (上海金瑞建設集團有限公司), Shanghai Third Harbor Benteng Construction and Engineering Co., Ltd. (上海三航奔騰建設工程有限公司), Shanghai Baiying Iron & Steel Group Co., Ltd. (上海百營鋼鐵集團有限公司), Shanghai Huanbei Real Property Co., Ltd. (上海環北房地產有限公司), Dalian Zunyuan Investment Co., Ltd. (大連尊遠投資有限公司) and Han Yong (韓雍) each holds 10%, 10%, 10%, 8%, 7%, 7%, 5.33% and 2.67% of the registered capital of Baoshan Fumin Rural Bank. All the above-mentioned shareholders of Baoshan Fumin Rural Bank are independent third parties of the Bank. The county bank has been accounted for as a subsidiary in our consolidated financial information since June 28, 2012. See "Financial Information – Financial Position – Capital Resources – Investments in Subsidiaries" and Note 21 to our consolidated financial statements set forth in Appendix I – "Accountants' Report" to this prospectus. In May 2014, we entered into a written concert party agreement with Shenyang Future Realty & Property Development Co., Ltd. (瀋陽未來置業房產開發有限公司), Shanghai Changxin Group Co., Ltd. (上海昌鑫(集團)有限公司), Shanghai Jinrui Construction Group Co., Ltd. (上海金瑞建設集團有限公司), and Dalian Zunyuan Investment Co., Ltd. (大連尊遠投資有限公司), which hold in aggregate 35.33% of the equity interest in Baoshan Fumin Rural Bank, pursuant to which they confirmed that they have, since the effective date (i.e. June 28, 2012) of the revised articles of association of Baoshan Fumin Rural Bank passed at its second extraordinary general meeting in 2012, voted, and undertook to continue to vote, in the same way as us in all major decision makings involving the financial and operating policies of Baoshan Fumin Rural Bank. Our PRC legal advisor, Tian Yuan Law Firm, is of the opinion that such concert party agreement is legally binding, valid and enforceable.

(16) As of the Latest Practicable Date, no issued Shares of the Bank was pledged and there were eight shareholders holding a total of 232,645,436 Shares, representing 5.29% of the Bank's share capital, which were subject to attachment and/or freezing orders of PRC courts.

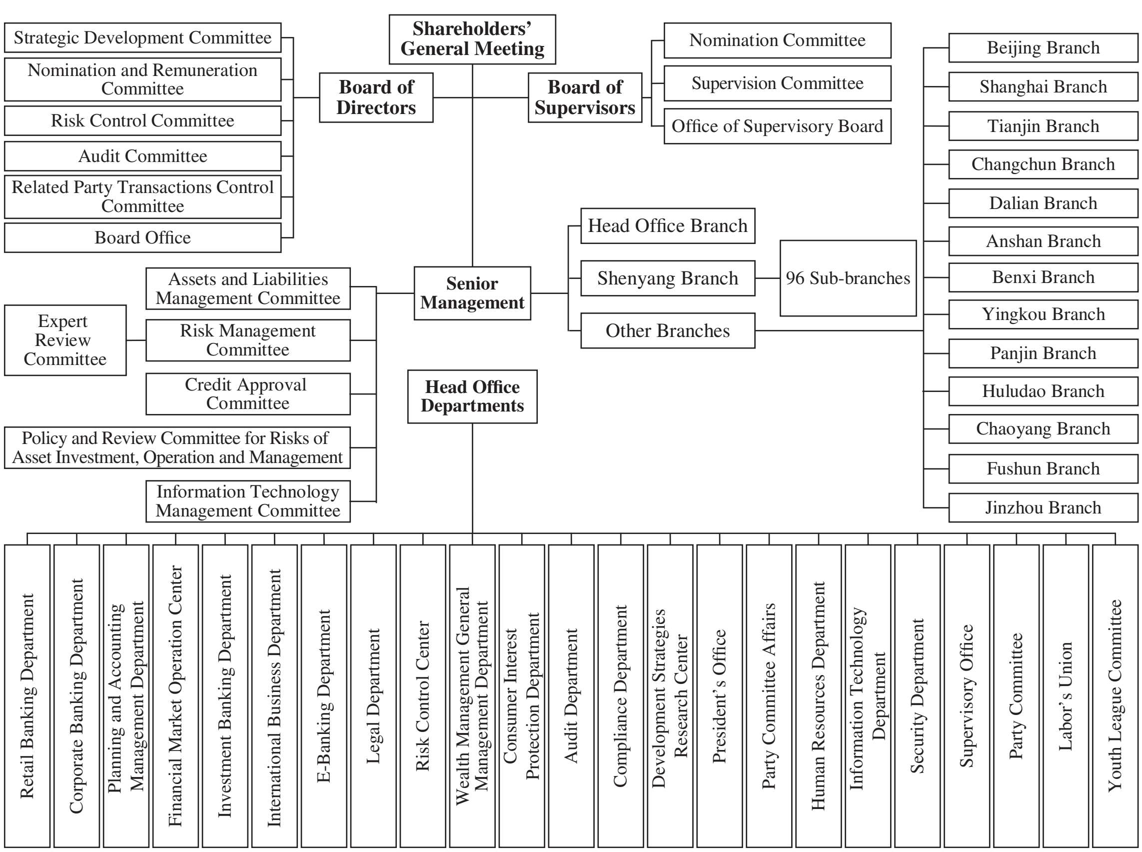
Immediately after the Completion of the Global Offering

The following chart sets forth our shareholding structure immediately following the completion of the Global Offering, assuming the Over-Allotment Option is not exercised:



ORGANIZATIONAL STRUCTURE AND OPERATIONAL REFORM

The following chart sets forth the principal organizational and management structure of our Bank as at the Latest Practicable Date:



Corporate Governance Structure

We have established and further developed a corporate governance structure comprising shareholders' general meeting, the Board, the Board of Supervisors and the senior management.

Our Board is accountable to our shareholders' general meeting and is responsible for, among others, determining our business and development strategy, risk management strategy, operational plan and appointment of our senior management. Our Board delegates certain responsibilities to dedicated board committees, including an audit committee, a strategic development committee, a nomination and remuneration committee, a risk control committee and a related party transactions control committee. Each committee reports to our Board. See "Directors, Supervisors and Senior Management – Committees under the Board of Directors" for the functions of each committee.

The Board of Supervisors is accountable to our shareholders' general meeting and is responsible for supervising the performance of the duties by the Board and the senior management as well as our finance, risk management and internal control. The Board of Supervisors has established a nomination committee and a supervision committee and each committee reports to the Board of Supervisors.

The senior management has executive powers conferred onto them by our Board to manage the day-to-day operations of our Bank. The president of our Bank is empowered to be primarily responsible for carrying out the decisions made by our Board and reports to our Board. We have also appointed vice presidents and other senior management staff (including chief risk officer, chief financial officer and chief information officer) to work with the president in performing their management responsibilities. We have established an assets and liabilities management committee, a risk management committee, a credit approval committee, a policy and review committee for risks of asset investment, operation and management and an information technology management committee under the senior management.

OPERATIONAL REFORM

Risk Management and Internal Control

We are committed to the enhancement of our risk management structure and systems as well as to improving our internal control system. A summary of the key measures we have implemented in relation to our risk management and internal control reform is set forth below:

2006	We established our compliance department which is responsible for the management of our compliance risk. We introduced an expert committee poll system for major and complex loans to further enhance the independence of credit review.
2008	We introduced the risk accountability system, strengthened the examination of delayed risks and deferred the payment of corresponding performance based compensation.
2009	We established the risk control department which is responsible for monitoring, inspecting and preventing risks associated with the day-to-day operation of our Bank.
2012	We established the risk control center and created the position of chief risk officer who is responsible for the overall risk management of our Bank. We further strengthened our three-tier compliance risk management structure at our headquarters, branches and sub-branches.
2014	We set up the legal department, which is responsible for the legal risks of our Bank.

Please see “Risk Management” for more information about our risk management framework.

Information Technology

We have been carrying out information technology infrastructure construction and development as well as system upgrades and optimization on an ongoing basis so as to support the growth of our business. A summary of the key measures we have implemented in relation to our information technology management and operational reform is set forth below:

2009	We established our information technology management committee to strengthen our decision-making and implementation in relation to information technology matters.
2010	We completed upgrading our core business system and credit management system to enable our information system to better fit our three-tier risk management compliance framework (consisting of our headquarters, branches and sub-branches) and cross-region operations.
	We established our same-city disaster recovery center in Shenyang to ensure the continuity of our business in the event of disasters.
	We launched an internal audit system for the application data center operation and maintenance to enhance the access right of the operating and maintenance staffs and internal audits.
2011	We launched our internet banking system, expanded our business channels and improved the efficiency of access to our services by our clients.
2012	We launched our financial IC card system to better protect the funds of our Bank and our clients.
2013	We established our cross-city disaster recovery centers in Yingkou to further ensure the continuity of our business in the event of disasters.
	We launched multiple risk management models and systems to enhance our ability to quantify risks.
	We launched mobile banking service to continue improving the efficiency of access to our services by our clients.
2014	We plan to launch our television banking service within the year to achieve full coverage of the electronic banking system.

Human Resources

We attach importance to human resources and implement comprehensive employee trainings. A summary of the key measures we have implemented in relation to our employee training and development system is set forth below:

- We have established a three-tier (headquarters, branches and sub-branches) training management system, whereby the headquarters holds first-tier and demonstrative training, which in turn drives the second and third tier training to be conducted at branch and sub-branch levels respectively, so as to broaden the scale and enhance the quality of training;

- We have customized and conducted training activities based on employees' positions and region locations in order to enhance the overall quality of our employees;

- We have raised qualification requirements for specific positions through qualification examinations and training sessions, including: implementation of a qualification accreditation system since 1999, which system was further optimized in 2005; and ongoing continuous on-job training and education programs. As of the Latest Practicable Date, more than 3,276 employees have obtained relevant professional qualifications;

- We have composed our own training manuals on 31 topics, including credit business, retail business, investment banking business, foreign exchange business, risk management, audit and security, so as to enhance the overall quality of our employees and to promote their career development;

- Since its establishment in 1998, our training center has been responsible for the employee training, position qualification accreditation and professional skill appraisal management throughout our Bank, enabling the employee training to meet the needs of our operations and development through planning management and demonstrative training and providing effective support for our sustainable and rapid development and cultivation of appropriate talents;

- We have established a professional skill appraisal system in 2008 covering all branches, departments and positions involved in the operation and management of our Bank as well as all aspects of professional skills. Through professional skill appraisal, we encouraged all our employees to improve their knowledge and skills, to effectively make use of their professional advantages, to strengthen the ability of continued employment and increase the value of our human resources; and

- We attach great importance to the selection, recruitment and appraisal of various talents with a particular focus on cultivation and introduction of professional talents. To enhance the professional capabilities of our employees and expand the platform for career development of our employees, we have set up professional positions, adopted the enterprise-oriented and market-oriented mechanism of talent selection and recruitment, formulated reward and incentive scheme for professional talent, strictly carried out performance appraisal management and standardized the recruitment and selection process for professional talent.

OVERVIEW

Headquartered in Shenyang, Liaoning Province, we are the largest city commercial bank in terms of total assets and net profits in Northeast China. As of December 31, 2013, our total assets were RMB355,432 million, accounting for 31.7% of the aggregate total assets of all city commercial banks in Liaoning Province as of the same date. In 2013, our net profit was RMB4,889 million, accounting for 37.2% of the aggregate net profits of all city commercial banks in Liaoning Province in the same period.

As of December 31, 2011, 2012 and 2013 and June 30, 2014, our loans to customers were RMB98,372 million, RMB114,131 million, RMB133,437 million and RMB147,745 million, respectively. As of December 31, 2011, 2012 and 2013, we ranked second among all commercial banks in Shenyang for three consecutive years in terms of RMB-denominated loans to customers, accounting for 13.6%, 13.4% and 13.5%, respectively, of the RMB-denominated loans to customers of all commercial banks in Shenyang.

As of December 31, 2011, 2012 and 2013 and June 30, 2014, our total customer deposits were RMB171,474 million, RMB207,987 million, RMB262,913 million and RMB295,934 million, respectively. As of December 31, 2011, 2012 and 2013, we ranked second among all commercial banks in Shenyang for three consecutive years in terms of total RMB-denominated customer deposits, accounting for 14.8%, 14.5% and 13.7%, respectively, of the total RMB-denominated customer deposits of all commercial banks in Shenyang. As of the same dates, we ranked first among all commercial banks in Shenyang for three consecutive years in terms of RMB-denominated corporate deposits, accounting for 17.4%, 15.3% and 14.1%, respectively, of total corporate deposits of all commercial banks in Shenyang. In each of 2011, 2012 and 2013, we ranked first among all commercial banks in Shenyang for three consecutive years in terms of the annual increase in total personal deposits.

We have achieved rapid growth, and continued to improve our profitability and asset quality in recent years. From 2011 to 2013, our operating income grew at a CAGR of 28.3% from RMB5,414 million to RMB8,905 million and our net profit grew at a CAGR of 36.8% from RMB2,612 million to RMB4,889 million. From December 31, 2011 to December 31, 2013, our net assets grew at a CAGR of 37.5% from RMB11,358 million to RMB21,470 million. Our net profit ranked first among the city commercial banks in Northeast China for three consecutive years from 2011 to 2013. While we focus on achieving the rapid growth of our business, we also maintain prudent risk management and internal control, with an emphasis on maintaining sound asset quality. As of December 31, 2011, 2012 and 2013 and June 30, 2014, our non-performing loan ratios were 0.63%, 0.54%, 0.46% and 0.44%, respectively.

We have an extensive distribution network covering substantially all prefecture-level cities and county-level cities in Liaoning Province. As of June 30, 2014, in addition to the six county banks we accounted for as subsidiaries in our consolidated financial statements, we operated our business in 14 cities, including Shenyang, Beijing, Shanghai, Tianjin, Changchun, Dalian and other cities in Liaoning Province through our head office, 143 branches and sub-branches (of which 126 outlets were located in major cities in Northeast China, and 97 outlets were located in Shenyang) and 537 self-service banking facilities. We also achieved outstanding performance outside Liaoning Province. As of December 31, 2013, our total customer deposits in Beijing and Tianjin ranked first and second, respectively, among all city commercial banks whose headquarters are not in the respective cities. We also offer financial service stations, online banking services, telephone banking services and mobile banking services, and expect to launch television banking services by the end of 2014, to expand our distribution network. Through our distribution network, we provide a broad range of corporate and retail banking products and services.

We have established an integrated marketing system, which encourages cooperation and cross-selling of products and services among different departments and business lines, so as to facilitate the joint development of our corporate and retail banking businesses. We focus on establishing and maintaining long-term and comprehensive strategic cooperative relationships with core corporate customers that are leaders in their respective industries or regions. These strategic cooperative relationships enable us to further consolidate and expand the individual customer base. See "– Marketing".

We have continuously received the "Second Regulatory Rating" (highest rating ever received by city commercial banks in the PRC) granted by the CBRC since 2008. This rating evaluates banks based on a number of factors, such as capital adequacy, asset security, management skill, profitability, liquidity and market risks. In addition, we have received a number of honors and awards for our business performance, management capability and corporate governance. For example:

- In 2014, our profits on Tier 1 capital ranked 83rd globally and ranked 7th in the PRC, and our return on assets ranked 214th globally and ranked 25th in the PRC banking industry according to The Banker;

- In 2014, in the "Evaluation Report of the Competitiveness among PRC Commercial Banks in 2014" (《2014年中國商業銀行競爭力評價報告》) published by The Chinese Banker, we ranked first among the city commercial banks with total assets of RMB200 billion or above in China for the year 2013, and were named the "Best City Commercial Bank";

- In 2013, our return on equity ranked 6th among Asian banks and 4th in the PRC banking industry according to Yazhou Zhoukan (《亞洲週刊》); and

- Starting from 2012, we were named by China Enterprise Confederation (中國企業聯合會) and China Enterprise Directors Association (中國企業家協會) as one of the "Top 500 Chinese Enterprises in Service Industry" for three consecutive years.

OUR STRENGTHS

We are a leading city commercial bank in Northeast China and have benefited from the favorable policies in, and significant market opportunities arising from, the rapid economic development of Northeast China, the Bohai Economic Rim and the Yangtze River Delta Economic Zone

Our headquarters is located in Shenyang, Liaoning Province. We are one of the first city commercial banks to open branches outside their residence provinces. Our business network mainly covers Northeast China, and we have branches in major cities in the Bohai Economic Rim and the Yangtze River Delta Economic Zone. Among our other competitive advantages, our scale, brand recognition, distribution network, as well as our deep understanding of the regional market established over years in Northeast China, have enabled us to attain a solid leading position among all city commercial banks in Northeast China. As of December 31, 2011, 2012 and 2013, our total assets were RMB221,207 million, RMB313,242 million and RMB355,432 million respectively, ranking first among the city commercial banks in Northeast China for three consecutive years.

Northeast China has long been a strong industrial base in the PRC. Since 2003, the Strategy of Revitalization of Old Industrial Bases in Northeast China has become one of the most important national development strategies in the PRC. Benefiting from regional economic integration, key equipment technological upgrade projects and extensive financial and tax incentives, Northeast China has experienced substantial growth in the equipment manufacturing industry. In addition, the strategically important information technology industry and the modern service industry have been vigorously developed in Northeast China. As a result, the economy of the region has entered into a rapid growth phase and become an important growth driver of China's economy. From 2009 to 2013, the nominal GDP in Northeast China increased from RMB3,107.8 billion to RMB5,444.2 billion, representing a CAGR of 15.0%, which was higher than the CAGR of 13.7% for national nominal GDP during the same period. In August 2014, the State Council issued the "Opinions on Certain Major Policies Recently Adopted in Support of Revitalizing Northeast China" to further consolidate the achievements in the revitalization of Northeast China and promote investments in Northeast China, thereby creating new growth momentum for the all-around revitalization of Northeast China.

Liaoning Province is located in the center of the Northeast Asian Economic Zone and the Bohai Economic Rim. It is one of the strong industrial bases among Chinese provinces. In 2013, the nominal GDP in Liaoning Province accounted for approximately half of the nominal GDP of Northeast China. PRC's policies, including the "Development Plan of Liaoning Coastal Economic Zone" promulgated in 2009 and the "Master Plan for Pilot Reforms for the New Type Industrialization in Shenyang Economic Zone" promulgated in 2011, have further promoted the rapid growth of the economy in Liaoning Province and served as a key driver for revitalizing Northeast China. From 2009 to 2013, the nominal GDP in Liaoning Province grew from RMB1,521.2 billion to RMB2,707.8 billion, representing a CAGR of 15.5%.

Shenyang is the capital of Liaoning Province, and the economic, commercial and financial center of Northeast China. In 2013, the nominal GDP in Shenyang was RMB715.9 billion, accounting for 26.4% of the nominal GDP in Liaoning Province, and ranked second in Northeast China. Meanwhile, as one of key regional centers in China and an important base for China's equipment manufacturing industry, Shenyang plays a strategic role in China's development. In addition, according to Global Metromonitor 2011, a research report published by the Brookings Institution in 2012, Shenyang ranked tenth among the world's largest metropolitan economies in terms of per capita GDP growth and employment growth from 2010 to 2011, and was one of the only four Chinese cities that were listed among the top ten cities.

In 2013, the Central government approved the "Special Program of the Reform for Optimizing Financial Ecology in the Pilot Area of Shenyang Economic Zone", which indicated the positioning of Shenyang as a significant financial center in Northeast China by the Central government. Under the program, reforms were taken in respect of financial markets, financial institutions, financial products and financial regulation, which were also supported by the "pilot" policies formulated by the Central government to promote financial reforms. Benefiting from these policies and the other regional advantages of Shenyang, the financial industry has become one of the pillar industries of Shenyang. As of December 31, 2013, the total bank deposits and loans in Shenyang respectively accounted for 29.4% and 30.7% of those in Liaoning Province, and 15.9% and 17.5% of those in Northeast China. From December 31, 2009 to December 31, 2013, the total bank deposits and loans in the banking industry of Shenyang grew at CAGRs of 14.2% and 15.3%, respectively.

As of the Latest Practicable Date, in addition to the eleven branches in Northeast China, we have also set up branches in major cities in the Bohai Economic Rim and the Yangtze River Delta Economic Zone, including the branches in Beijing, Tianjin and Shanghai and two county banks in each of Shanghai and Ningbo. As of June 30, 2014, our total deposits and loans outside of Northeast China accounted for 33.4% and 19.8% of our total deposits and loans, respectively, and the operating income from branches outside of Northeast China was RMB785 million in the six months ended June 30, 2014, accounting for 15.0% of the Bank's total operating income. In light of the further revitalization of Northeast China and the sustainable development of the Bohai Economic Rim and the Yangtze River Delta Economic Zone, we believe that our strategically developed distribution network outside of Northeast China will provide greater potential for our growth and important support for the sustainable development of our Bank in the future.

We are an industry leader in terms of profitability and effective cost control which have contributed to high returns for our shareholders

We are one of the most profitable city commercial banks in China. In 2014, according to The Banker, our profits on Tier 1 capital ranked 83rd in the world among the World's Top 1000 Banks, and ranked seventh in the Chinese banking industry, higher than any of the listed city commercial banks in China. We ranked first among the city commercial banks with total assets of RMB200 billion or above in China for 2013 and were named the "Best City Commercial Bank" in the "Evaluation Report of the Competitiveness among PRC Commercial Banks in 2014" published by The Chinese Banker.

The sustainability of our profitability is supported by the optimization optimal allocation of our assets. As of June 30, 2014, our loan-to-deposit ratio was 49.92%, and as a result, we have much potential to further expand the total amount of loan. In addition, as of the same date, treasury bonds, bonds of policy banks and financial bonds accounted for 13.3% of our total assets, and such assets are highly liquid and may be readily disposed of. Our assets composition enables us to maintain adequate capital and liquidity in case of fluctuations in the financial market due to inter-bank rate changes. Because the interest income from treasury bonds is exempted from income tax, we are able to manage related income tax expense and further improve our profitability as measured by return on capital and return on assets.

We enjoy significant advantages of operating cost control. From 2011 to 2013, our cost-to-income ratio continued to improve, declining from 24.0% in 2011, to 20.8% in 2012 and 19.0% in 2013. Our cost-to-income ratio was recognized as the second lowest among Asian banks in the list published by The Asian Banker magazine in 2014. Our low cost-to-income ratio is mainly attributable to the effective management of our operating costs. We have an efficient team of well functioning staff, which, while properly incentivized, have maintained a relatively low labor cost and delivered a per-capita profit of RMB1.36 million in 2013, ranking the second compared to all the listed city commercial banks in China for the same period.

We take into account current benefits and long-term development potential before we expand our business and opening outlets in a new area. As a general practice, we prepare a viable development plan after conducting thorough market research and detailed analysis to ensure that we will have a mature customer base of sufficient size and good prospects for business development in the area, and that we will achieve synergy with our other branches. We also enjoy low operating costs due to the high proportion of business outlets which are located on self-owned properties, and the low costs of our modern marketing channels, such as online banking, mobile banking, financial service stations and television banking.

Due to our outstanding profitability and cost control, our net profit increased from RMB2,612 million in 2011 to RMB4,889 million in 2013 (representing a CAGR of 36.8%) which ranked first among the city commercial banks in Northeast China for the three consecutive years. Our operating income increased from RMB5,414 million in 2011 to RMB8,905 million in 2013, representing a CAGR of 28.3%. From 2011 to 2013, the CAGRs of our operating income and net profit, being 28.3% and 36.8%, respectively, both outpaced all listed city commercial banks in China.

We enjoyed competitive advantages in corporate banking as we have secured high quality core customers and a stable customer base

Our corporate banking business, the foundation of our business, covers a wide range of key industries and areas. In 2013, operating income from our corporate banking business was RMB6,711 million, accounting for 75.4% of our total operating income for the year. For the years ended December 31, 2011, 2012 and 2013, our corporate deposits were RMB123,665 million, RMB146,066 million and RMB187,191 million, respectively. According to the PBOC, as of December 31, 2011, 2012 and 2013, we ranked first among all commercial banks in Shenyang for the three consecutive years in terms of RMB-denominated corporate deposits, accounting for 17.4%, 15.3% and 14.1%, respectively, of the total RMB-denominated corporate deposits of all the commercial banks in Shenyang.

We have maintained long-term strategic cooperation relationships with high-quality key customers. As of December 31, 2013, our corporate customers included 39 companies on the list of 2013 Top 500 Chinese Enterprises issued by the China Entrepreneurs Association, and we have maintained long-term business relationships with 58 companies on the list of Top 100 Tax Paying Enterprises in Shenyang published by the Shenyang Municipal Government. In particular, we focus on developing business with leading companies in the advanced equipment manufacturing and modern service industries such as NHI Group, a heavy machinery manufacturing company, NHA Group, an airline company, and Red Star Macalline, a large national home furniture chain retailer. These customers benefit from the support of the national industrial policies and regional economic policies, which in turn help us further develop our business and optimize our asset structure. We have also entered into strategic cooperation framework agreements with certain core corporate customers and deepened our business cooperation with them in various respects, including arrangements in which we became their preferred bank for various financial services, customer referrals and cross-selling, thereby contributing to higher and more diversified income for, and a broader customer base of the Bank.

We have established mid- and long-term strategic cooperation relationships with public utility companies in Liaoning Province under which we provide services such as payroll service, collection of public utility bills and investment and financing services. These public utility companies have long been our most important deposit and loan customers and have provided us with a stable source of corporate deposits and interest income over the years. In addition, we have fostered comprehensive cooperation relationships with governmental entities at all levels in Liaoning Province through strategic cooperation agreements, such as the cooperative promotion of financial services for medium, small and micro enterprises. The governmental entities, as well as companies and public institutions thereunder have also long been our important deposit customers.

We have adopted a variety of service innovation strategies to seize the tremendous business opportunities arising from the continued business growth of medium, small and micro enterprises. We have set up dedicated financial service centers in Shenyang, Beijing, Shanghai and Tianjin, and established the "Green Channel" for loans to, and launched a new brand of financing services – Kuai Dai Tong (快貸通) – for, medium, small and micro enterprises. In addition, we adopted the wholesale and cluster customer development strategies, which focus on medium, small and micro enterprises in the upstream and downstream industrial chain of key enterprises. We generally identify suitable medium, small and micro enterprises in traditional business districts, industrial parks and professional markets, as well as those enterprises with strengths in terms of geographical location, marketing or product. As these medium, small and micro enterprises have loyal and stable customer bases or marketing advantage, they generally enjoy a low risk profile. As of June 30, 2014, 70.43% of the total loans provided to medium, small and micro enterprise are secured by mortgages or pledges, higher than the average ratio of 57.16% for all of our loans to corporate customers.

Our corporate banking business has made stable contributions to the growth of our revenue and profit. With increasing cross-selling between corporate banking and retail banking businesses, we have generated synergies between the two segments and fostered rapid growth of our overall business.

Supported by our brand recognition, wide range of services and financing channels, as well as our broad retail banking customer base, we have achieved rapid growth in our retail banking business

We have achieved rapid growth in our retail banking business through a development strategy which caters the needs of individual customers with high growth potentials and an extensive distribution network accessible by the general public offering a wide range of services. From December 31, 2011 to December 31, 2013, the number of our individual customers increased from 4,186,000 to 5,306,700, representing a CAGR of 12.6%, and our personal deposits increased from RMB47,809 million to RMB75,722 million, representing a CAGR of 25.9%. We ranked first among the banks in Shenyang in terms of annual increase in personal deposits from 2011 to 2013. In addition, as of December 31, 2013, we issued a total of 6,386,100 debit cards and ranked second among the banks in Shenyang.

We provide a broad range of collection and payment agency services, including over 20 agency services for public utility bill payment, such as gas, water and electricity and telecommunication bills. The service covers virtually all public utility bill payments in Shenyang. In particular, we are the only bank in Shenyang to provide collection and payment agency services for housing maintenance fund and traffic violation fines. In 2013, we handled 5,060,100 transactions for public utility bill collection services for a total collection amount of RMB1,433 million, which topped all city commercial banks in Shenyang. We also provide payroll services to Liaoning Province government agencies and regional government agencies in Shenyang, as well as primary and secondary schools and certain public institutions in Liaoning Province. Our payroll service business had 1,031,100 personal customers as of December 31, 2013 and a total payroll amount of RMB25,770 million in 2013, providing us with a stable source of personal deposits. More importantly, we are the only authorized issuer bank of the "Five-in-One" social security IC cards to salaried employees on behalf of government agencies, companies and public institutions in Shenyang. As of June 30, 2014, we had issued a total of 1,170,600 social security IC cards. The agency services we provide have enhanced the influence of our retail banking business and customer loyalty, strengthened and expanded the customer base of our retail banking customers, and resulted in the continuous growth of the number of our retail banking customers and deposits in low-cost individual settlement accounts.

We value high-end customer business. High-end customer business has become an important growth driver of our retail banking business. As of June 30, 2014, we had five wealth management centers and 138 dedicated account managers providing services to high-end customers. From December 31, 2011 to December 31, 2013, the number of our high-end customers with assets over RMB300,000 under our management grew at a CAGR of 18.97%. We have also continued to optimize the customer structure of our credit card business. The proportions of credit card transaction volume and revenue (exclusive of overdue payment) contributed by our high-end customers increased from 67.8% and 64.6% in 2011 to 85.0% and 74.7% in 2013, respectively.

We are committed to providing retail customers with more convenient and comprehensive services as well as excellent customer experiences through our multi-channel distribution networks. Since July 2013, we have established financial service stations which promote our products and services and accept applications for various retail banking businesses in cities where we have branches and sub-branches. We have entered into medium- and long-term strategic cooperation agreements with the governments at various levels in Shenyang, and obtained the exclusive rights to establish financial service stations in communities in various administrative districts. As of June 30, 2014, we had a total of 412 financial service stations which have helped us to develop approximately 17,925 new individual customers. In addition, we also entered into a five-year exclusive strategic cooperation agreement with North United Cable Network Inc. (北方聯合廣播電視網絡股份有限公司) (the exclusive operator of cable television service in Liaoning Province) in 2013 to carry out our television banking business across Liaoning Province, which will let our customers enjoy various general banking services at home including account inquiry, transfer and remittance, and self-serviced payment, and will further strengthen our marketing channels in Liaoning Province. Moreover, we have cooperated with third-party payment agents to carry out agency payment settlement business and have set up automatic teller machines and multi-media smart terminals in community districts, chain stores, supermarkets and other buildings. The above strategies have further enhanced our market penetration and brand recognition, broadened our customer base, and helped to enhance customer loyalty and capture opportunities arising from the trend of financial disintermediation.

We have maintained sound asset quality due to prudent and comprehensive risk management

The continued, stable growth of our businesses has benefited from our prudent risk management strategies. In accordance with the PRC's economic conditions and changes in policies, we have formulated medium- and long-term strategic plans for risk management, and we also adjust our risk management strategies every year as appropriate. We have always been committed to establishing and improving a risk management mechanism that is consistent with our development strategies, business scale and business management. We also strive to improve our comprehensive risk management system which covers various risks, including credit risk, market risk, liquidity risk and operational risk.

We have adopted detailed risk management policies that cover all aspects of our business. These policies emphasize consistent management of various risks. We have also established a sound internal control mechanism that consists of risk prevention, risk control and follow-on supervision and rectification. As a result, we have:

- enhanced our forward-looking risk analysis and research, and established a credit rating system for our corporate customers to improve risks prevention in the course of loan applications. Based on the credit rating system, customers who maintain stable business conditions, good credit standing and strong repayment abilities are rated as class A or above. As of December 31, 2013, more than 96% of our corporate customers were rated as class A or above;

- enhanced our risk management during credit approval process by monitoring risks associated with our customers that may arise from various sources such as their regions, industries and risk control capabilities. We have been emphasizing the principle of effective collateral, stressed the importance of strong repayment abilities and the effectiveness of guarantees from our customers, adopted differentiated authorization for credit extension, and have prudently determined the value and discount rates of collateral (which rate generally does not exceed 50%) in order to fully cover loan default risk; and

- enhanced our risk management in the stage when we have provided credits to our customer, carrying out regular and special post-lending inspections, enhancing on-site management and appraisal of collateral, and effectively controlling risk exposures. In addition, we have improved our IT systems by adopting advanced risk management tools to enhance risk recognition, measurement, monitoring and alert. We have also carried out in-depth risk analysis and stress tests.

By implementing an innovative incentive mechanism for risk management, we have enhanced our risk evaluation and rectification capabilities. We have adopted an accountability system for employees in charge of asset management, which has enhanced employees' awareness of their responsibility and promoted risk management efforts. We adopted an innovative "risk accountability scoreboard management" system applicable to all of our staff in 2008 and were among the first group of Chinese banks to adopt such system. The system applies to all staff and positions throughout the business operation process. Under this system, each employee at his or her position corresponds to a specific risk level. Such employee is compensated by allowance based on the risk management responsibilities of such specific position. Effective risk management over our entire business operation process is achieved through clear and detailed assessment standards as well as strict and comprehensive evaluation.

In relation to our risk management, we have also implemented a strict rewards and penalties system which affects our employees' performance-based compensation. The allowance is based on risk management responsibilities of a specific position and may account for up to 30% of an employee's performance-based compensation. This compensation policy provides a strong incentive for employees to fulfill their risk management responsibilities. In response to the hysteresis characteristics of asset risks, we strive to match risk exposure with the time when allowance payments are actually made by implementing a mechanism where the allowance payment is made in deferred installments and will be clawed back under certain circumstances. In order to cover the entire risk exposure period, the allowance based on risk management responsibility of an employee will be distributed in three installments: in the current year and at the end of each of the third year and the sixth year from the current year.

Our prudent and comprehensive risk management has helped us maintain high asset quality. As of December 31, 2011, 2012 and 2013 and June 30, 2014, our non-performing loan ratio had continued to decline, being 0.63%, 0.54% and 0.46% and 0.44%, respectively.

We have a management team with extensive experience in the industry and a highly qualified workforce

Our management team has excellent strategic vision and extensive experience in the banking industry. Our chairperson, Ms. Zhang Yukun, has over 25 years of management experience in the banking industry, and has held several key leadership positions in large state-owned commercial banks. In particular, she has extensive experience in the strategic planning, business operation, risk management and internal control of commercial banks. Under Ms. Zhang's strong leadership, we have achieved rapid and steady growth in recent years. In 2008 and 2013, Ms. Zhang was elected as a representative of the 11th and the 12th sessions of the National People's Congress, respectively. Ms. Zhang is a qualified senior economist, and before joining us, Ms. Zhang spent many years performing economic and financial research at the Liaoning Academy of Social Sciences and developed a deep understanding of Chinese macroeconomic environment. Ms. Zhang is also a member of the Standing Committee of the Political Consultative Conference of Liaoning Province and a member of the Fifth Advisory Committee for Policy Decision of the Liaoning Provincial People's Government.

All members of our core management team have more than 20 years of professional management experience in the banking industry, have served us for an average of over 15 years, and have extensive experience in business operation, financial management, risk control and information technology. Certain of our key senior management members have served in management positions in large state-owned commercial banks, and hold qualifications as senior economists or senior accountants.

Leveraging on our advanced human resource management strategies and training systems as well as sound performance review mechanisms, we have cultivated a highly qualified workforce. As of June 30, 2014, 75% of our employees had bachelor's degrees or above. In addition, we have continued to provide job training to all of our employees to help improving their professional skills. Each of our employees receives an average of over 240 hours of training each year. Since 2008, we have started to implement the Measures of Professional Skill Appraisal Management (員工專業技能等級考評管理辦法) policy, under which we adopted a compensation model linked to employees' professional skills and awarded allowances based on job functions, ranks, promotion examinations, performance on risk management and professional evaluations. As a result, we have a comprehensive and effective incentive program to improve the professional skills of our employees.

OUR STRATEGIES

Our strategic objectives are as follows: (i) as we carry out our strategy to establish a multi-channel financial network, we plan to build upon our base in Northeast China and our networks in the Bohai Economic Rim and the Yangtze River Delta Economic Zone, to establish a presence in the Pearl River Delta Economic Zone, and to become an innovative and quality bank with a national coverage; (ii) we aim to become a leading bank in China and throughout Asia in terms of high asset quality by taking an adaptive risk management approach; (iii) we strive to create greater shareholder value through effective management policies and procedures; and (iv) we endeavor to maintain our strong growth momentum and become a bank with a clear competitive edge.

We have positioned ourselves as a bank that can "promote the strategic development of regional economies, fuel the development of emerging industries, support small and medium enterprises and provide caring services to ordinary citizens". We plan to achieve our strategic objectives by taking the following measures:

Building upon our regional leadership position, implementing our strategies of expanding operations outside Liaoning Province and diversifying our operations

We will capitalize on the latest central government policies to revitalize Northeast China; consolidate and strengthen our advantages in distribution network and services in Northeast China, the Bohai Economic Rim and the Yangtze River Delta Economic Zone; and steadily enhance our influence and market competitiveness outside Liaoning Province. To this end, we plan to adopt the following measures:

- We will leverage on the government policy of optimization and upgrade of the industrial structure in Northeast China and the long-term government strategies of developing Liaoning Coastal Economic Zone and the master plan for Shenyang Economic Zone. Based on such policy background, we plan to accelerate the expansion of our distribution network in Liaoning Province and major cities in Northeast China. We will proactively seek policy support to create a full coverage of branches in Liaoning Province by 2015 and in major cities in Northeast China within the next three years, consolidate and strengthen our competitive advantages in Liaoning Province and Shenyang, steadily increase our market share and continuously optimize our asset structure in order to develop into a leading bank in Northeast China;

- We will carefully study the macroeconomic, industrial and financial policies in China and their development trends. We will take advantage of our license for expanding operations outside Liaoning Province to the extent permitted by government policies. We will also enhance our penetration into other economically developed areas such as the Bohai Economic Rim, the Yangtze River Delta Economic Zone and the Pearl River Delta, as well as other high potential markets such as the central and western areas of China, in order to become a Nationwide Joint-stock Commercial Bank;

- We will proactively extend banking networks by cooperating with our core customers, in particular, non-financial institutions such as chain stores with extensive sales networks. By developing remote payment and mobile payment functions, we will further extend our business network from Northeast China, the Bohai Economic Rim and the Yangtze River Delta Economic Zone into the Pearl River Delta Economic Zone; and

- We will actively seek opportunities to establish new financial institutions (such as financial leasing companies and consumer finance companies) in order to further diversify our product mix and extend our service chain within the financial service industry. Meanwhile, we will actively seek opportunities for strategic cooperation with and capital investment in third-parties as well as set up joint ventures, thereby creating a diversified business model, with a core operation in the traditional commercial banking services and synergic development in financial services, such as investment banking, insurance and trust businesses. We currently have not identified any targets for acquisition.

Maintaining our leading position in corporate banking business and optimizing our customer base

We will continue to strengthen our leading position in corporate banking in Northeast China, closely follow the trend of the regional industrial development, and track and timely participate in key projects of emerging industries. We will also continue to strengthen our relationships with quality customers, expand and optimize our banking business and strive to become a leading provider of comprehensive corporate banking services. To this end, we plan to adopt the following measures:

- We will continue to consolidate our existing strengths in the equipment manufacturing industry and modern service industry by seizing the opportunities arising from central government policies;

- We will strengthen our public utilities agency businesses; take full advantages of our existing local, brand and technological strengths; satisfy the needs of the general public who interact with our public institution customers and government agency customers to expand our customer base; maintain and strengthen customer relationships and customer loyalty; and expand our agency payment business targeted at public institution customers served by our branches outside Shenyang;

- We will strengthen and deepen business ties with our core customers and continue to consolidate our medium- and long-term strategic cooperation with these customers. By leveraging our relationships with core customers such as corporate groups and chain stores, we will actively develop banking businesses with new customers as well as medium, small and micro enterprises along the upstream and downstream of such core customers' industry chains; and

- We will promote innovations in financial products and services with high growth potential and value-added propositions; continue to optimize and improve standardized products; proactively develop emerging businesses such as wealth management trust products, cash management, and financing along industry chains; and develop customized financial service solutions to cater to the needs of corporate customers.

Proactively expanding our retail banking business and enhancing the comprehensive strength of our retail banking business

We will strengthen our market position as a bank offering caring services to the ordinary citizens; enhance the capability of collection and payment service; expand and seek innovations in electronic banking, personal loans, wealth management products, bank cards and private banking businesses, with a view to meeting customers' various needs and maintaining the rapid growth of our retail banking business; and aim to become a leading bank in Northeast China for customer service. To this end, we plan to adopt the following measures:

- We will leverage on our strengths derived from our local knowledge and connections, brand and service competitions; deepen our strengths in collection and payment service and payroll service; and expand our utility fee collection service in Liaoning Province and Northeast China. Based on the broad range of collection and payment services that we currently provide to public institutions in Shenyang, we aim to cover all types of fee collection service in Liaoning Province and Northeast China in three to five years in order to strengthen our public utilities agency business. We will increase the number of customers of our payroll service, strengthen the advantages of our deposit-type wealth management products and develop products that can meet local customers' needs, develop business along the industry chains of retail business in order to enhance customer loyalty, and develop our retail banking business based on our strengths in agency services;

- We will continue to expand our diversified retail banking channels, vigorously increase the number of financial service stations, promote convenient products and services, and maintain a suitable distribution of ATMs and multimedia terminals. We will apply advanced information technology to develop remote payment functions and accelerate the marketing of online banking, telephone banking, mobile banking, television banking and self-service banking. We will continue to extend our business network and expand our customer base by setting up multi-media smart terminals and self-service facilities on the premises of our core customers with whom we maintain strategic cooperation relationships as well as in other chain stores and supermarkets;

- We will accelerate the development of high-end retail banking products and services and develop our high-end customer base. We will deepen cooperation with strategic customers having business networks across the nation and increase high-end individual core customers. We will focus on high-end credit card marketing and develop exclusive value-added services to increase the proportion of high-end customers and their use of our products and services. By building a private banking platform, adding more wealth management centers and continuously developing wealth management products exclusively for high-end customers, we hope to improve the loyalty of our high-end customers; and

- We will accelerate product innovation, optimize product structure and focus on marketing and development of key products. We will expand the product mix of the Red Rose series of wealth management products, improve the investment yield of our wealth management products to significantly increase the number of our individual customers of and revenue from our intermediary business. We will seek cooperation with third-parties to improve our services such as sale agency of funds and precious metals. We will promote the application of electronic wallet and financial IC cards in various businesses.

Optimizing our operating income mix by aggressively developing our treasury business and investment banking businesses

In light of the deepening reform of the financial sector and the fast pace of the liberalization of the Renminbi exchange rates and interest rates, we will, to the extent in compliance with the requirements of dynamic capital management and liquidity management, explore new business models in the financial industry and certain investment banking businesses, enhance our capabilities in market trading and investment management, and achieve income diversification. To this end, we plan to carry out the following measures:

- Based on the macroeconomic conditions and actual condition of the Bank, we will optimize allocation of our assets such as notes and bonds, timely adjust maturity and interest rate profiles, and promote the stable development of traditional treasury business and product innovation;

- We will conduct inter-bank businesses with more banks, significantly increase the transaction volume of and broaden channels for treasury business, and increase returns on treasury business by making use of financial products and instruments available in money markets, bond markets, foreign exchange markets and financial derivatives markets; and

- We will generate cross-selling between the financial market and investment banking businesses on the one hand, and our corporate banking and retail banking businesses on the other, through efforts to develop businesses as such custody services, financial advisory services and bond underwriting. Through such efforts, we will satisfy our corporate and personal customers' demand for multi-channel finance, investment and wealth management and other financial services, further maintain and develop high quality customers, and steadily increase the income from our intermediary business.

Further enhancing our risk management capabilities, and improving our risk control system

We will continue to improve our comprehensive risk management and risk control system which covers all Bank staff and all of our procedures; strengthen the management of credit risks, liquidity risks, market risks, operational risks and reputation risks; and build a rational and efficient management and control procedure in order to achieve sustainable business development with manageable risks. To this end, we plan to adopt the following measures:

- We will further strengthen forward-looking risk control strategic planning, timely adjust and improve mid- to long-term risk management strategic planning, and analyze changes of economic cycles and policy and market trends. In addition, we will learn risk management strategies and operational experiences and practices from leading foreign banks, broaden our international vision on risk management strategies and enhance our strategic risk management abilities;

- We will timely adjust our annual risk prevention and control measures according to changes in regulatory policies and economic environments, proactively manage risks arising from various aspects, including industries, regions, customers and products, enhance risk identification and data analysis, strengthen risk management over corporate development cycles and devise differentiated risk management measures;

- We will strengthen effective performance of risk management responsibilities by our business departments and branches, improve the mechanism for the examination, assessment and adjustment of risk management for authorization of credit extension, improve risk management tools and techniques, and further enhance our capabilities in risk identification, measurement, monitoring and control;

- We will adhere to the principle of requiring effective security and pledge of assets and maintain an accountability system for asset risk management in order to prevent loss of assets; and

- We will explore innovations in mid- and long-term incentive plans for risk management, continue to improve the management for evaluation of professional skills and performance of risk management responsibilities of each position, tie the evaluation results of risk management performance of mid- and senior-level management to their compensation, and further improve the mid- and long-term risk management system. We will nurture a culture of risk management and establish a consistent risk management philosophy, operational standards and benchmarks among our employees and improve our risk management expertise.

Recruiting, motivating and training qualified personnel

We believe that the key to our success lies in whether we can recruit, retain, motivate and train highly capable and experienced professionals. We will continue to improve our human resources management system and optimize our existing human resources structure. To this end, we plan to adopt the following measures:

- We will continue to recruit qualified and specialized personnel, optimize our hiring system for professionals and managers, and expand the recruitment and hiring channels for specialized talents, including recruiting internationally renowned product development talents, entering into strategic cooperation agreements with colleges and training institutes in order to locate more talents and improve trainings;

- We will establish an open training system featuring regular lectures by professionals and experts within and from outside the Bank and training for all employees based on their respective positions and levels;

- We will build a systematic and comprehensive performance evaluation system and a competitive market-oriented remuneration system for management and an employee incentive plan, and will refine our incentive system for talents according to the contribution, loyalty and performance of risk management responsibility of such employees, which will provide support for the recruitment of external professionals; and

- We will devise the career paths of our employees and strengthen the training and promotion of college graduates who have worked as tellers for more than three years and with us for more than five years in order to offer better career development opportunities to our junior staff.

Continuing to improve our financial management expertise and optimizing resource allocation

We will continue to improve our vertically integrated financial management system which focuses on cost-output analysis, to focus on financial management in business decision making, and to optimize the resource allocation accordingly. To this end, we plan to adopt the following measures:

- We will continue to improve our cost management information system and focus on cost-effectiveness. Through cost sharing, optimization of business processes, and the systematic classification and effective identification of information on costs and profits, we will enhance the accuracy of our measurement of the levels of profit contribution;

- We will use operational decisions, profitability analysis and performance evaluation as our benchmarks; refine our cost-profit calculating system for products; conduct detailed audits of products, services and staff positions, and improve our financial management system to support decision making on business development, customer management, product pricing and cost control; and

- We will continue to improve the pricing system for internal fund transfers, conduct reasonable evaluations on the levels of profit contribution of each branch and business line based on an analysis of products and business lines and the profitability of each region by adjusting the price of internal funds in order to improve our management expertise and guide the optimization of resource allocation.

Accelerating the offering of electronic financial services and optimizing our information systems

Continuous improvement of our electronic financial services and information technology is critical to the continuing and stable development of our business and essential for our adaptation to financial disintermediation. In order to enhance the key competitiveness of our information technology system, we plan to adopt the following measures:

- We will accelerate the offering of our Internet financial system and integrate multi-channel services such as online payment, telephone banking and self-service equipment. We will further improve the interface between online banking and the corporate finance system to improve fund management and the profitability of our corporate customers, enrich our mobile banking product mix and develop a mobile payment application, promote our television banking services, and expand remote banking and multimedia services. In addition, we will utilize non-cash and self-service terminals to proactively promote community banking and develop services for ordinary citizens such as prepaid cards refill, bill payment and agency sale;

- We will establish an enterprise-level data platform to further enhance our capacity of data application and provide effective information system support for decision-making, marketing and risk management. We will progressively build a unified platform for analysis of customer marketing and customer relations and deeply explore customer data resources in order to achieve differentiated customer marketing and improve the efficiency and quality of our financial services; and

- We will enhance the risk prevention capability of our systems. Benchmarking to the international information security standards and in accordance with regulatory requirements, we will continue to improve and optimize our disaster recovery program and backup system, enhance our emergency management system and strengthen our business continuity management.

OUR PRINCIPAL BUSINESSES

We operate three principal lines of business: corporate banking, retail banking and treasury business. We also generate a small portion of our operating income from investment in associates. The following table sets forth the contribution of each line of business to our total operating income for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2011		2012		2013		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
							(unaudited)			
	(in millions of RMB, except percentages)									
Corporate banking	4,865	89.9%	5,988	86.7%	6,711	75.4%	2,956	73.6%	3,885	74.2%
Retail banking	278	5.1	348	5.0	424	4.8	201	5.0	243	4.6
Treasury business	240	4.4	538	7.8	1,594	17.8	859	21.3	1,214	23.2
Others[(1)]	31	0.6	34	0.5	176	2.0	3	0.1	(103)	(2.0)
Total	5,414	100.0%	6,908	100.0%	8,905	100.0%	4,019	100.0%	5,239	100.0%

Note:

(1) Others primarily include income from investment in associates. In the six months ended June 30, 2014, the operating loss from others include primarily the losses from cessation of significant influence over investment in an associate of RMB127 million. See "Financial Information – Result of Operations – Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013 – Net Trading (Losses)/Gains, Net (Losses)/Gains Arising from Financial Investments and Other Operating Income – Net (Losses)/Gains Arising from Financial Investments" for details.

Corporate Banking Business

Overview

A majority of our operating income is attributable to our corporate banking business. The customers of our corporate banking business include both large enterprise groups and medium, small and micro enterprises, as well as governmental agencies and public utilities. Our corporate banking products and services primarily include corporate loans, international trade finance and settlement services, corporate deposits, as well as intermediary business products and services.

We implemented sequential management for our corporate banking customers, adopted differentiated marketing and provided tailored customer service and management. We focus on the establishment and maintenance of long-term and comprehensive cooperative relationships with core corporate customers in certain industries and regions, including large national or regional enterprises, and medium enterprises with potential to develop into large national or regional enterprises. Furthermore, we rely on our core customers to further develop quality customers from their upstream suppliers and downstream distributors in the industry chain. Our head office is primarily responsible for directing marketing efforts to develop core customers, and enhancing the loyalty of core customers through our comprehensive and customized financial products and solutions, thereby improving the overall contribution of such customers to us. See "– Marketing".

As of June 30, 2014, we had 2,146 corporate loan customers with total outstanding corporate loans of RMB143.12 billion and 95,721 corporate deposit customers with total deposits of RMB211.11 billion. Our corporate loans increased steadily from RMB95.82 billion as of December 31, 2011, to RMB143.12 billion as of June 30, 2014. Our corporate deposits increased significantly from RMB123.67 billion as of December 31, 2011 to RMB211.11 billion as of June 30, 2014. According to the PBOC, as of December 31, 2013, we ranked first in terms of RMB-denominated corporate deposits in Shenyang with a market share of 14.1%. In 2011, 2012, 2013 and the six months ended June 30, 2014, the operating income from our corporate banking business was RMB4,865 million, RMB5,988 million, RMB6,711 million and RMB3,885 million, respectively, representing 89.9%, 86.7%, 75.4% and 74.2%, respectively, of our total operating income.

Corporate Loans

We offer a wide variety of corporate loan products to our corporate customers, including working capital loans, fixed asset loans and bill discounting, and customized financing services, including comprehensive credit extension plans for strategic core customers and financing plans for medium, small and micro enterprises. As of December 31, 2011, 2012 and 2013 and June 30, 2014, our total corporate loans were RMB95,820 million, RMB111,028 million, RMB129,577 million and RMB143,124 million, respectively, representing 97.4%, 97.3%, 97.1% and 96.9%, respectively, of our total loans to customers.

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

	As of December 31,						As of June 30,	
	2011		2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Working capital loan	50,796	53.0%	59,190	53.3%	77,933	60.2%	84,513	59.1%
Fixed asset loans	44,958	46.9	51,484	46.4	50,958	39.3	57,299	40.0
Import and export bill advances (trade finance)	66	0.1	354	0.3	287	0.2	679	0.5
Bill discounting	0	0	0	0	399	0.3	633	0.4
Total corporate loans	95,820	100.0%	111,028	100.0%	129,577	100.0%	143,124	100.0%

Working Capital Loans

We provide working capital loans to customers to fund their day-to-day operations. Working capital loans typically have maturities of less than three years, with a majority of these loans having maturities of one year or less. As of June 30, 2014, we had working capital loans of RMB84,513 million, representing 59.1% of our total corporate loans.

Fixed Asset Loans

We provide fixed asset loans to customers primarily to address their funding needs for various fixed asset investment projects, including basic construction projects and technical transformation projects, as well as housing construction and land development. Our fixed asset loans are generally secured by the fixed asset projects so purchased or constructed, and the maximum amount of our fixed asset loan is usually 50% of the appraised value of the relevant properties or project. The fixed asset loans generally have maturities between one to five years. As of June 30, 2014, we had fixed asset loans of RMB57,299 million, representing 40.0% of our total corporate loans.

Bill Discounting

Bill discounting refers to our purchase of bank acceptance bills and commercial acceptance bills with a remaining maturity of less than one year at a discount from corporate customers. As of June 30, 2014, we had discounted bills of RMB633 million outstanding (all of which were bank acceptance bills), representing 0.4% of our total corporate loans.

We provide the following customized financing services to different types of corporate customers.

Comprehensive Credit Extension Plans for Strategic Core Customers

We offer comprehensive financing solutions by providing comprehensive credit extension to quality core customers which have established strategic cooperative relationships with us. We determine the maximum credit limit for such customers which allow them to conveniently obtain comprehensive financing services, including loans, bank acceptance bills, discounted bills, bank guarantee letters and international trade financing, within the maximum credit limit during the agreed period and on a revolving basis within the maximum credit limit. As of June 30, 2014, the total amount of comprehensive credit extension to our strategic core customers was RMB20.39 billion (of which the loan balance was RMB16.66 billion, representing 11.64% of our total corporate loans). The comprehensive credit extension services include a wide and flexible selection of financing products to our customers, simplify the credit approval procedures and take well into account both the regulatory compliance and timeliness. We are committed to establishing and maintaining long-term and comprehensive strategic cooperative relationships with quality core corporate customers, and providing them with professional, customized and integrated financial services. By doing so, we can enhance customer loyalty and further develop quality customers from core customers' upstream suppliers and downstream distributors in the industry chain. See "– Corporate Banking Business – Customer Base" and "– Marketing".

Financing Plans for Medium, Small and Micro Enterprises

We have formulated our development objective to "become a bank supporting medium, small and micro enterprises". By taking advantage of our long-term cooperative relationships with strategic core customers, we expanded our quality customer base of medium, small and micro enterprises along the industry chain of our strategic core customers as well as those in the traditional commercial markets, industrial parks and professional markets and those with prevalence in region, market and product. We have established strategic cooperative relationships with the governments of Shenyang and relevant districts and counties to support the growth of medium, small and micro enterprises. According to such strategic cooperative relationships, relevant government departments agree to refer to us quality medium, small and micro enterprises each year that meet our lending criteria or suggest such enterprises located in their jurisdictions to use our financing services. The long-term cooperative relationships with strategic core customers and relevant governments at various levels have enabled us to effectively develop quality customers of medium, small and micro enterprises. We have implemented a speedy and efficient credit approval process for customers of medium, small and micro enterprises, and accept flexible loan security, including mortgages of properties, pledges of machinery and equipment, inventories, certificates of deposit, share interests, account receivables, and corporate guarantee. Our speedy and efficient credit approval process and flexible choices of loan security make our financing plans more attractive to medium, small and micro enterprises in terms of such customers' peculiar characteristics and financing needs.

In order to seize the opportunities arising from the continuous growth of medium, small and micro enterprises, we had set up dedicated financial service centers for medium, small and micro enterprises in our branches in Shenyang, Beijing, Shanghai and Tianjin. We have also established "Green Channel" for medium, small and micro enterprises, and launched a new brand of financing services – Kuai Dai Tong (快貸通) for medium, small and micro enterprises.

The featured products under our "Kuai Dai Tong" brand mainly include Kuai Su Dai (快速貸), Cai Gou Dai (採購貸), Zhi Ye Dai (置業貸), Zu He Dai (組合貸) and An Jie Dai (按揭貸). Kuai Su Dai is a short-term facility which is secured by mortgages or pledges of certificates of deposit, bank acceptance bills, or guaranteed by guarantee companies acceptable to the Bank. Cai Gou Dai is a short-term facility which is designed to finance the business operations of our customers engaged in the business of acquiring procurement contracts awarded by government agencies, and accepts account receivables as security. Zhi Ye Dai is a medium- or long-term facility which is designed to finance our customers' fixed assets construction projects. Zu He Dai is a revolving credit facility which is designed to finance the daily operations of our customers, and is secured primarily by mortgages of properties and by additional security if the credit extended exceeds the value of collateral. An Jie Dai is a medium- or long-term facility which is designed to finance the purchase of properties by our customers for business operations, and is secured by mortgages of the properties so purchased.

Our medium, small and micro enterprise business has grown rapidly in recent years. As of December 31, 2011, 2012 and 2013 and June 30, 2014, the loans to medium, small and micro enterprise customers were approximately RMB69,544 million, RMB70,259 million, RMB77,041 million and RMB89,564 million, respectively, and the weighted averages of the interest rates of such loans were 7.89%, 7.64%, 7.63% and 7.62%, respectively. As of June 30, 2014, the loans to medium, small and micro enterprise customers accounted for 62.6% of our corporate loans. Our medium, small and micro enterprise customers are mainly from the wholesale and retail industry, manufacturing industry and modern service industry in Liaoning Province, Beijing and Tianjin. As of December 31, 2011, 2012 and 2013 and June 30, 2014, the non-performing loan ratios of our loans to medium, small and micro enterprise customers were 0.85%, 0.52%, 0.74% and 0.64%, respectively.

International Trade Finance and Settlement Services

International Trade Finance Services

We provide our corporate customers in the import business with services, including letters of credit issuance and acceptance, import bill advances, guarantees for release of cargo, and overseas payment agency services. For our customers engaged in the export business, we offer packing loans, export bill purchasing, export invoice financing and forfeiting to assist them in managing their liquidity. In 2011, 2012, 2013 and the six months ended June 30, 2014, transaction volumes for our international trade finance business were RMB451 million, RMB1,105 million, RMB1,864 million and RMB1,218 million, respectively.

International Trade Settlement Services

We provide diversified international trade settlement services to exporters and importers, including letters of credit, collection agency and remittance. In 2011, 2012, 2013 and the six months ended June 30, 2014, transaction volumes for our international trade settlement business were RMB8,285 million, RMB18,393 million, RMB25,001 million and RMB17,289 million, respectively.

Other Services

Our international business also includes other services such as foreign currency deposits, foreign currency loans, foreign currency exchange, spot foreign currency purchase and sale, cross-border RMB settlement, external guarantee, agency service for foreign currency trade, cooperative handling of sale and purchase of forward foreign currency, credit investigation and authentication.

Corporate Deposits

We offer time and demand deposits in Renminbi and major foreign currencies (such as US dollar, Hong Kong dollar, Euro and Japanese yen) to our corporate customers. We generally offer time deposits with maturities of up to five years. We also offer negotiated deposit products that have customized interest rates, maturities and other terms. In addition, we offer call deposit products that bear higher interest rates than those of demand deposits and retain certain flexibility of demand deposits by allowing customers to withdraw money with advance notice to us within a certain period of time. As of December 31, 2011, 2012 and 2013 and June 30, 2014, our total corporate deposits were RMB123.67 billion, RMB146.07 billion, RMB187.19 billion and RMB211.11 billion, respectively. According to the data published by the Shenyang Branch of the PBOC, as of December 31, 2011, 2012 and 2013, our corporate deposits ranked first in Shenyang for three consecutive years.

Intermediary Business Products and Services

We provide our corporate customers with a broad range of intermediary products and services, including entrusted loans, settlement, domestic letter of guarantee, agency services, wealth management and custody services for trust fund. In 2011, 2012 and 2013 and the six months ended June 30, 2014, our net fee and commission income from intermediary business products and services was RMB65 million, RMB112 million, RMB770 million and RMB706 million, respectively.

Entrusted Loans

We provide our corporate customers with entrusted loan services. We extend entrusted loans on behalf of our corporate customers, which act as the principals, in accordance with the purpose, amount, term, interest rate and other conditions of the loans determined by the principals, and we also monitor the use and assist with the collection of loans. Our corporate customers, being the principals, assume the default risk of such loans, while we receive fees based on the amount of the entrusted loans.

Settlement Services

We provide settlement services to our corporate customers. Our settlement services include wire transfer, checks, cashier's checks, bank drafts, consignment collection, and collection and acceptance. As of June 30, 2014, we had approximately 88,300 corporate settlement accounts. In 2011, 2012 and 2013 and the six months ended June 30, 2014, our domestic settlement amounts were approximately RMB3,294.98 billion, RMB5,046.96 billion, RMB7,767.24 billion and RMB5,104.42 billion, respectively.

Domestic Letter of Guarantee Services

We provide domestic letter of guarantee services to our corporate customers, including the provision of tender guarantees, performance guarantees, advance payment guarantees, and duty payment guarantees. Domestic letters of guarantee are generally processed and approved under the same procedure for extending corporate loans and advances. As of December 31, 2011, 2012 and 2013 and June 30, 2014, the outstanding amounts of domestic letters of guarantee issued by us were approximately RMB34 million, RMB359 million, RMB989 million and RMB1,111 million, respectively.

Agency Services

We offer agency services to governmental departments, public institutions and large group enterprises in Liaoning Province, Shenyang and various districts and countries in Shenyang for money collection and payment such as centralized payment of fiscal expenses and salaries, collection of non-tax revenues, payment of public utility bills, and management of housing maintenance funds and social security funds, among which we provide exclusive collection services for traffic fines and housing maintenance funds in Shenyang. See "– Retail Banking Business – Retail Banking Intermediary Business – Collection and Payment Agency Services". In particular, we cooperate with Shenyang Municipal Taxation Bureau to jointly establish a "Finance, Tax, Treasury and Bank Internetworking Payment System" (the "TIPS") to offer electronic tax payment services. In 2011, 2012 and 2013 and the six months ended June 30, 2014, the amounts received or paid by us on behalf of the governmental departments from fiscal agency business were approximately RMB56,765 million, RMB81,030 million, RMB110,538 million and RMB63,101 million, respectively.

Wealth Management Services

We offer wealth management products with different terms and yields in line with market changes and customers' risk tolerance as well as corporate customers' needs, in order to satisfy the financial and investment needs of our corporate customers. We provide diversified financial services to corporate customers through developing wealth management products under the brand of "Red Rose (紅玫瑰)", which invest in bonds and deposits with banks and other financial institutions. See "– Treasury Business – Treasury Business Conducted on Behalf of Customers".

Custody Services for Trust Fund

The financial disintermediation and interest rate liberalization in general has resulted in lower interest margin for the PRC banking industry and therefore, banks in general have expanded their intermediary banking business so as to protect their profitability. As a result, we have provided our trust company customers with custody services for trust funds since 2012 in order to expand our business and product cooperation with non-bank financial institutions. As of December 31, 2012 and 2013 and June 30, 2014, the funds we oversaw under our custody services for trust fund were RMB15,939 million, RMB61,254 million and RMB77,475 million, respectively, due to our increased marketing efforts to expand this business. As of the same dates, we received fees for custody services for trust fund for 20 trust plans, 78 trust plans and 116 trust plans, respectively (the size of each generally ranging from RMB100 million to RMB2,000 million). All of such trust companies are qualified and well-known in relevant markets and established with the approval of the CBRC or the PBOC, and the majority of which have more than RMB100 billion trust assets under their management. Specifically, in 2012 and 2013, and the six months ended June 30, 2014, we did not invest in any trust plans the funds of which were covered by our custody services, other than one trust plan of RMB300 million where we had investment in trust beneficiary rights in the six months ended June 30, 2014. We had received corresponding service fee of RMB2,025,000 for such trust fund during the six months ended June 30, 2014. Other than the aforesaid trust plan, there is no relationship between the service fee we charged in connection with the custody services for trust fund and the investments we made in trust beneficiary rights. The trust companies sponsoring the trust plans the funds of which are covered by our custody services are our independent third parties. The proceeds from the trust plans sponsored by the trust companies are lent to financing parties in fields and industries which are in compliance with the industry policies, which are in compliance with the relevant principles governing the investment of the trust funds and the risk control of the trust companies. Such trust plans have stable yields. We, acting as the custodian bank for trust projects and other investment projects, are entrusted by the trust companies, pursuant to our agreements with trust companies and financing parties, to supervise the accounts for trust funds as well as the use of the trust funds by the financing parties. Our responsibilities include overseeing the receipts and payments of funds through the accounts for trust funds and verifying whether they are made in accordance with the agreed purposes, as well as controlling withdrawals of funds from the accounts. We will be responsible for any losses as a result of our failure to duly perform our custodian obligations under our agreements with trust company customers and financing parties. We are not responsible for the sales or marketing of the relevant financial products issued by trust companies. In accordance with the agreements we entered into with the trust companies and the financing parties, we are not responsible for any decrease in the value of trust assets or any default of the trust companies. During the Track Record Period and up to the Latest Practicable Date, we were not subject to any claims of losses arising from our custody services for trust fund. We charge fees according to the agreed rates.

In 2011, 2012 and 2013 and for the six months ended June 30, 2014, our total fees from custody services for trust fund were nil, RMB45 million, RMB678 million, and RMB652 million, respectively. During the Track Record Period, the bases for determining our fees for custody services for trust fund primarily included the amount of the trust fund, the term of custody service for trust fund and the frequencies of payments to be made out of the trust funds, which are not related to the nature of the transactions in connection with the trust fund, and such bases had not changed in any material respect. For the reasons for changes in our fees from custody services for trust fund, see the discussion on fee and commission income in "Financial Information – Result of Operations".

Customer Base

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

	As of December 31,						As of June 30,	
	2011		2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Loans to large enterprises	19,501	20.4%	31,930	28.8%	44,370	34.2%	45,542	31.8%
Loans to medium enterprises	29,487	30.8	39,252	35.3	39,985	30.9	47,602	33.3
Loans to small and micro enterprises	40,057	41.7	31,007	27.9	37,056	28.6	41,962	29.3
Other loans[(1)]	6,775	7.1	8,839	8.0	8,166	6.3	8,018	5.6
Total corporate loans	95,820	100.0%	111,028	100.0%	129,577	100.0%	143,124	100.0%

Note:

(1) Primarily including loans to public institutions.

We have established a large and stable customer base in Liaoning Province, especially in Shenyang. We are committed to expanding and maintaining our core customer base in Shenyang, and further exploring core customers in Liaoning Province and regions or cities with strategic significance such as the economically developed regions, including the Bohai Economic Rim centering Beijing, Tianjin and Dalian and the Yangtze River Delta Economic Zone centering around Shanghai through our extensive marketing network. By doing so, we can offer financial services and develop sustainable business cooperation relationship with these core customers. In addition, we have also strategically expanded our customer base in the key economic regions of the PRC, and expanded our service network by establishing branches in major cities in economically developed regions such as Beijing, Shanghai, Tianjin and

Dalian, where the number of corporate customers has gradually increased. As of June 30, 2014, we had 95,721 corporate deposit customers and 2,146 corporate loan customers. As of June 30, 2014, we had more than 10,000 corporate customers that had accounts with our outlets in Beijing, Shanghai, Tianjin, Dalian and Changchun.

We are committed to establishing long-term strategic partnerships with and providing professional, tailored, and integrated financial services to customers which we believe have good growth potential as well as those who are leading enterprises nationwide or regionally, or leading in their respective industries. We have also fostered close relationships with governmental entities at various levels in Shenyang. Those governmental entities and companies and public institutions thereunder have long been important deposit customers of ours and provided significant support for our sources of deposits.

As of June 30, 2014, our core enterprise customers included 39 enterprises listed in the "2013 Top 500 Chinese Enterprises" published by China Enterprise Directors Association. In addition, we have established long-term business relationships with a large number of corporate customers in Shenyang, including leading enterprises in various industries in the city.

As of June 30, 2014, we had established long-term business relationships with more than half of the top 100 corporate taxpayers in Shenyang as published by Shenyang municipal government. As of the Latest Practicable Date, we had also entered into legally binding strategic cooperation framework agreements with terms of three to ten years in general with 383 large or medium enterprise or public institution customers such as NHI Group (北方重工集團有限公司) (a heavy machinery manufacturing company), HNA Group (海航集團) (an airline company), Beijing Hualian Group Holding Co., Ltd. (北京華聯集團投資控股有限公司) (a large retail enterprise), Red Star Macalline (紅星美凱龍家具集團股份有限公司) (a large national home furniture chain retailer) and GOME (國美電器有限公司) (a home appliance chain retailer). We have cooperated on various businesses with the corporate customers which have entered into strategic cooperation framework agreements with us. Those customers have undertaken that they will, under the same conditions, prioritize the use of our products and services such as loans, discounted bills, settlements, trade financing, payroll, collection of fees and capital management. On the other hand, we are committed to providing customers with comprehensive financial services, with favorable conditions to fully support their business development. We also strive to carry out cooperative marketing with our strategic customers such as using our customers' physical outlets to promote our businesses, establishing a customer resource sharing platform by jointly developing online malls with customers and issuing co-branded bank cards. See "– Marketing".

In addition to our proactive development of large enterprise customers, we have also proactively and effectively developed medium, small and micro enterprise customers in the industries which fit into the economic development of Shenyang, Liaoning Province and Northeast China. These customers include those in the high-end equipment manufacturing and modern service sectors which have benefited from the Strategy of Revitalization of Old Industrial Bases in Northeast China. We have also sought to secure a large number of medium, small and micro enterprise customers in the major coastal cities in the Bohai Economic Rim and Yangtze River Delta Economic Zone. We have been committed to enhancing our advantage in the medium, small and micro enterprise credit services, and have also developed a number of medium, small and micro enterprise customers with growth potential which have maintained long-term relationships with us. For instance, Weikang Pharmaceutical Group (維康醫藥集團) was a small enterprise and only engaged in medicine trading when we established business relationships with them in 2007. Supported by credit facilities extended by us, Weikang Pharmaceutical Group has now developed into a modern large-scale pharmaceutical group which manufactures, distributes in chain stores, and imports and exports medicine, as well as offers medical and health services. We also targeted technologically innovative small and medium enterprises with strong growth potential and manageable credit risk as our key loan customers. For example, Liaoning Yifei Technology Co., Ltd. (遼寧易飛科技有限公司) continued to grow with our credit support since 2010. As of June 30, 2014, we had 1,801 medium, small and micro enterprise customers.

Our corporate loan customers are mainly in the (i) wholesale and retail industry; (ii) manufacturing industry; (iii) real estate industry; and (iv) leasing and commercial services industry. As of June 30, 2014, the loans to customers in these industries accounted for 20.2%, 20.0%, 19.4% and 12.8%, respectively, of our total corporate loans. As of the same date, the percentage of loans to top 10 corporate borrowers, all being independent third parties, to our total corporate loans and the percentage of deposits from top 10 corporate depositors, all being independent third parties, to our total corporate deposits were 10.21% and 17.18%, respectively. Our five largest borrowers and five largest depositors accounted for less than 30% of the respective total loans to customers and deposits as of each of December 31, 2011, 2012 and 2013, and June 30, 2014, respectively.

Retail Banking Business

Overview

Our retail banking business offers to individual customers a wide range of products and services, including personal deposits, personal loans, bank cards, intermediary business and other businesses. Our retail banking business has achieved favorable development in recent years. In 2011, 2012, 2013 and the six months ended June 30, 2014, the operating income from our retail banking business was RMB278 million, RMB348 million, RMB424 million and RMB243 million, respectively. As of June 30, 2014, we had approximately 5,507,200 personal deposit customers and 17,679 personal loan customers. As of the same date, our personal deposit balance was RMB84.82 billion and our personal loan balance was RMB4.62 billion. As of December 31, 2011, 2012, 2013 and June 30, 2014, our personal deposits accounted for 27.9%, 29.8%, 28.8% and 28.7%, respectively, of our total customer deposits, and our personal loan balance (including credit card overdrafts) accounted for 2.6%, 2.7%, 2.9% and 3.1%, respectively, of our total customer loan balance.

As of June 30, 2014, we had issued approximately 7,158,500 bank cards. In 2011, 2012, 2013 and the six months ended June 30, 2014, the total spending amounts of our debit cards were RMB10,212 million, RMB10,590 million, RMB14,910 million and RMB7,951 million, respectively. In 2011, 2012, 2013 and the six months ended June 30, 2014, the total spending amounts of our credit cards were RMB1,075 million, RMB1,681 million, RMB2,720 million and RMB1,921 million, respectively.

Personal Deposits

We offer various demand deposits and time deposits in RMB and foreign currencies. Substantially all of our personal deposits are denominated in RMB. We offer RMB-denominated time deposits with maturities ranging from three months to five years and foreign currency-denominated (mainly including US dollar, HK dollar, Euro and Yen) time deposits with maturities ranging from one month to two years. Furthermore, we have developed a wealth management product called "Xin Zeng Li (薪增利)" for payroll customers. Upon satisfaction of certain conditions, part of the balances from payroll customers' demand deposit accounts may be transferred into the "Xin Zeng Li" wealth management account, where, based on different lengths of time of deposits in the wealth management account, deposits with a longer term will enjoy higher returns. "Xin Zeng Li" effectively increases the deposit balance of our payroll customers and the growth rate of our savings deposits. As of June 30, 2014, the deposits under our "Xin Zeng Li" product were RMB7.9 billion, representing 9.3% of our total personal deposits.

As of June 30, 2014, our total personal deposits were RMB84.82 billion, representing 28.7% of our total customer deposits. According to the Shenyang Branch of the PBOC, from December 31, 2011 to December 31, 2013, our RMB-denominated personal deposits in Shenyang increased from RMB44.44 billion to RMB69.39 billion, representing a CAGR of 25.0%, and we ranked first among the banks in Shenyang for three consecutive years in terms of the annual increase in personal deposits. In addition, as of December 31, 2011, 2012 and 2013, our market share of RMB-denominated personal deposits in Shenyang continued to grow, reaching 11.8%, 13.2% and 14.1%, respectively. As of December 31, 2011, 2012 and 2013, we ranked third in terms of RMB-denominated personal deposit balances in Shenyang.

Personal Loans

Personal Mortgage Loans

We provide personal mortgage loans to individual customers for their purchase of new or used residential real properties. As of December 31, 2011, 2012 and 2013 and June 30, 2014, the balance of our total personal mortgage loans was RMB2.31 billion, RMB2.66 billion, RMB2.92 billion and RMB3.18 billion, respectively, representing 90.6%, 85.8%, 75.7% and 68.9%, respectively, of total personal loans, respectively. In general, these loans are secured by the residential real properties purchased by the borrowers and have terms of five to 30 years.

Personal Business Loans

Personal business loans primarily include personal start-up loans and loans to sole proprietors. As of December 31, 2011, 2012 and 2013 and June 30, 2014, the balance of our personal business loans was RMB9 million, RMB64 million, RMB247 million and RMB344 million, respectively, accounting for 0.4%, 2.1%, 6.4% and 7.4%, respectively, of total personal loans, respectively. In general, these loans are secured by properties or plants of the borrowers and have terms of one to two years.

Personal Consumption Loans

We provide personal consumer loans for, among others, general consumption needs such as house improvement, purchase of consumer durables and automobiles, educational expenses, travel, medical and health care as well as the purchase of large-sum insurance. These loans are generally secured by properties of the borrowers or other collateral acceptable to us. As of December 31, 2011, 2012 and 2013 and June 30, 2014, the balance of our personal consumer loans was RMB53 million, RMB118 million, RMB237 million and RMB559 million, respectively, representing 2.1%, 3.8%, 6.1% and 12.1%, respectively, of total personal loans.

Credit Extension to Medium- and High-end Individual Customers

We grant credit facilities to medium- and high-end individual customers (being individual customers with assets of RMB200,000 or above under our management) on a one-off basis according to their applications. They may draw down their respective credit facilities once or several times within the credit period and credit limit based on their household consumption needs, during which the facilities may be drawn down on a revolving basis subject to compliance with the relevant conditions for use of funds.

Bank Cards

We offer a wide variety of bank card products to our customers, including various debit cards and credit cards. We are a member of China UnionPay, China's national inter-bank card information exchange and transaction network organization. We held a 0.27% shareholding in China UnionPay as of June 30, 2014.

The table below sets forth, for the periods indicated, the total number of bank cards issued and the total transaction volumes for the bank cards.

Item	Year ended December 31, 2011	2012	2013	Six months ended June 30, 2014
	(in thousands)			
Number of debit cards issued.	4,188	5,021	6,665	7,046
Of which:				
Medicare cards	657	721	774	772
Social security IC cards	3	255	1,055	1,171
Other debit cards	3,528	4,045	4,836	5,103
Number of credit cards issued	72	87	104	112
Total	4,260	5,108	6,769	7,158

Item	Year ended December 31, 2011	2012	2013	Six months ended June 30, 2014
	(in millions of RMB)			
Spending amount for debit cards	10,212	10,590	14,910	7,951
Spending amount for credit cards	1,075	1,681	2,720	1,921
Total	11,287	12,271	17,630	9,872

Debit Cards

We have engaged in the debit card business since 1999, being one of the first city commercial banks in the PRC issuing debit cards. We have issued a variety of "Rose" debit cards to the customers who maintain deposit accounts with our Bank. Our debit cards provide a variety of financial services, including cash deposit and withdrawal, money transfer and settlement as well as fee payment. Our debit cards are also integrated with additional features such as collection and payment agency services, arranged deposits, automatic repayments and smart wealth management services. Our debit cards are categorized into ordinary cards, platinum cards and gold cards. The cardholders of platinum cards and gold cards can enjoy priority services and featured services such as fee waivers, special offers from merchants, wealth management seminars, and exclusive wealth management services. We also exclusively issue the "Five-in-One" social security IC cards to salaried employees in Shenyang, which integrate our financial services with certain social insurance functions, thus providing insured customers with comprehensive services comprising the withholding of insurance premiums and payment of medical expenditures covered by medical treatment, pension, work injury, maternity and unemployment insurance policies. For other employment groups such as part-time employees in Shenyang, we have the "Medicare card" specially designed for payment of medical insurance premiums.

As of June 30, 2014, we had issued a total of approximately 7,046,000 debit cards, ranking second in Shenyang in terms of the number of debit cards issued. As of June 30, 2014, on average, every resident in Shenyang had one Rose debit card issued by our Bank based on the total cards we issued and the number of residents in Shenyang. In 2011, 2012, 2013 and the six months ended June 30, 2014, the total spending amounts of our debit cards were RMB10.21 billion, RMB10.59 billion, RMB14.91 billion and RMB7.95 billion, respectively. We are able to effectively maintain our existing individual customers and expand our customer base through the diversified services offered by our debit cards.

Credit Cards

We introduced credit card products in 2005 and have been targeting high-end customers. For the quality payroll customers and corporation executives, we introduced the Rose Boss Card (玫瑰老闆卡), the Rose Manager Card (玫瑰經理人卡), the Platinum Credit Cards and the Gold Credit Cards. In addition, our credit cards also include ordinary credit cards, business credit cards, as well as the "Rose Aixin credit cards" (玫瑰愛心卡) and the "Liren credit cards" (麗人卡) specially offered to female customers. We also launched co-branded credit cards with certain enterprise customers. Our credit cards offer a wide range of services to customers, including overdraft consumption, transfer settlement, cash advance, revolving credit, installment and preferential merchant service, and offer exclusive preferential merchant service, reward point-based service and personal credit reminding service exclusive to high-end customers. As of June 30, 2014, we had issued a total of 36,095 business credit cards. As of June 30, 2014, we had issued a total of approximately 112,000 credit cards, of which 6,405 were high-end credit cards. In 2011, 2012, 2013 and the six months ended June 30, 2014, the total spending amounts of our credit cards were RMB1,075 million, RMB1,681 million, RMB2,720 million and RMB1,921 million, respectively; the spending amounts of high-end credit cards accounted for 67.8%, 79.1%, 85.0% and 75.4% of the total spending amounts of our credit cards, respectively.

Income from our credit card business primarily includes service fees we collect from cardholders, interest income from outstanding balances and commissions from merchants. In 2011, 2012, 2013 and the six months ended June 30, 2014, the operating income from our credit card business was RMB10,898,900, RMB15,416,800, RMB25,842,500 and RMB15,027,600, respectively; the operating income from high-end credit cards accounted for 64.6%, 67.8%, 74.7% and 71.1%, respectively, of the total operating income from our credit cards.

Retail Banking Intermediary Business

We provide our retail banking customers with a wide range of intermediary services, including collection and payment agency services, payroll services, personal wealth management services and settlement services.

Collection and Payment Agency Services

We provide retail banking customers with bill collection services, being one of the first banks providing bill collection services and the bank offering broadest bill collection services in Shenyang. Residents in Shenyang can pay more than 20 different bills or other expenses in Shenyang, including payment of utility fees, gas fees, heating fees, telephone fees, cable TV fees, medical insurance premiums, housing maintenance funds and traffic fines, through our counters, self-service terminals, telephone banking, online banking and auto-payment system. In particular, we provide exclusive collection service for housing maintenance funds and traffic fines in Shenyang. In 2011, 2012, 2013 and the six months ended June 30, 2014, the business volumes of our bill collection services were approximately RMB1,583 million, RMB1,398 million, RMB1,433 million and RMB705 million, respectively.

Payroll Services

We provide Liaoning government, Shenyang government and the governments at various levels of Shenyang, and public institutions and several large conglomerates with agency service for their payments of salaries and allowances and subsidies. For the civil servants of Liaoning provincial government and its directly affiliated agencies as well as Shenyang municipal government and its affiliated government agencies at district and county levels, and the teachers and other staff of all primary and secondary schools in Shenyang, we centrally handle payment of salaries and allowances through their personal bank accounts with us. In addition, certain large enterprises in Shenyang and across China have also entrusted us to provide payroll services to their employees. Our payroll service provides us with a stable source of personal deposits, broadens our medium- and high-end customer base and has offered us more opportunities to cross-sell other products and services. Meanwhile, our savings-based wealth management products also help to keep a portion of the payroll payment in our Bank, which reduces our cost of obtaining personal deposits. As of December 31, 2011, 2012 and 2013 and June 30, 2014, the individual customers of our payroll services were approximately 946,900, 995,800, 1,031,100 and 1,060,100, respectively. In 2011, 2012, 2013 and the six months ended June 30, 2014, the total amounts of salaries paid through our payroll as well as allowance and subsidy disbursement services were approximately RMB22.82 billion, RMB24.55 billion, RMB25.77 billion and RMB13.14 billion, respectively.

Personal Wealth Management Services

Our personal wealth management services are targeted at medium- and high-end customers. By selecting high-yield, high-liquidity and high-rating basic assets and investment portfolios in a scientific, reasonable and prudent way, we have created "Red Rose", a new brand of wealth management service, which focuses on investments in inter-bank bonds and inter-bank deposits. We have implemented a differentiated preferential product pricing system based on the overall contribution of customers to our Bank, which can enhance the loyalty of our medium- and high-end retail banking customers. As of June 30, 2014, we had approximately 8,169 personal wealth management customers. See "– Treasury Business – Treasury Business Conducted on Behalf of Customers".

Settlement Services

We offer settlement services to our retail banking customers, including RMB- and foreign currency-denominated money transfer, remittance and collection, and settlement of cashier's checks, bank drafts and checks. In 2011, 2012, 2013 and the six months ended June 30, 2014, the transaction volumes of our RMB-denominated settlement services were approximately RMB565.52 billion, RMB607.28 billion, RMB652.18 billion and RMB346.83 billion, respectively.

Customer Base

Leveraging on our quality financial services and good brand image, the deposit customer base of our retail banking business has expanded rapidly in recent years. As of December 31, 2011, 2012 and 2013 and June 30, 2014, we had approximately 4,186,000, 4,635,400, 5,306,700 and 5,507,200 personal deposit customers, respectively. As of June 30, 2014, we had approximately 17,679 personal loan customers and 1,060,100 payroll service customers.

In addition to basic customers, we also place emphasis on the development of high-end customers. From December 31, 2011 to June 30, 2014, our medium- and high-end customers with assets over RMB200,000 under our management grew from 34,348 to 53,708.

Treasury Business

Our treasury business primarily focuses on meeting our liquidity needs and, at the same time, seeks to maximize the return on our funds for non-lending activities. Our treasury business primarily includes engaging in money market transactions, investing in securities and other financial assets, bond underwriting and distribution, inter-bank discounts and rediscounts of bills and treasury business conducted on behalf of customers. We generally use money market transactions to meet our liquidity needs. Our treasury business has grown significantly in recent years. In 2011, 2012, 2013 and the six months ended June 30, 2014, the operating income from our treasury business was RMB240 million, RMB538 million, RMB1,594 million and RMB1,214 million, respectively. From 2011 to 2013, our operating income from the treasury business grew at a CAGR of 157.7%.

Money Market Transactions

Our money market transactions primarily include: (i) inter-bank credit extension, short-term borrowing from and lending to other domestic banks and non-bank financial institutions and inter-bank deposit service; and (ii) repurchases and reverse repurchases of securities with other domestic banks and non-bank financial institutions. Securities underlying repurchase and reverse repurchase transactions primarily include bonds issued by the PRC central government and policy banks, etc. As of December 31, 2011, 2012 and 2013 and June 30, 2014, the balances of our deposits and placements with banks and other financial institutions and financial assets held under resale agreements, were RMB20.51 billion, RMB74.21 billion, RMB78.00 billion and RMB110.31 billion, respectively, representing 9.3%, 23.7%, 21.9% and 24.6% of our total assets, respectively, and the balances of deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements, were RMB33.84 billion, RMB84.95 billion, RMB63.44 billion and RMB115.92 billion, respectively, representing 16.1%, 28.4%, 19.0% and 27.4%, respectively, of our total liabilities. We were listed as one of the "Top 100 Enterprises in terms of Transaction Volume (交易量前100強)" by the National Inter-bank Funding Center for 11 consecutive years since 2003, rated as an "Outstanding Trading Member (優秀交易成員)" by the National Inter-bank Funding Center from 2004 to 2008, and rated as the "Most Influential Bank in Market (最具市場影響力銀行)" by the National Inter-bank Funding Center in 2010.

Investments in Securities and Other Financial Assets

Our investments in securities and other financial assets mainly include investments in bonds and debt instruments issued by financial institutions.

Investments in Bonds

Our investments in bonds mainly include government bonds, policy banks and other financial institutions and non-financial institutions as well as bills issued by the PBOC. Substantially all of our investments in government bonds are the bonds issued by the MOF. As of June 30, 2014, our investments in the bonds issued by the MOF accounted for approximately 98.6% of our investments in government bonds. The table below sets forth our investments in bonds by types of bonds as of the dates indicated:

	As of December 31,			As of June 30,
	2011	**2012**	**2013**	**2014**
	(in millions of RMB)			
Government bonds				
Bonds issued by the MOF	18,177	16,107	17,215	17,422
Bonds issued by local governments[1]	1,030	376	250	250
Subtotal	19,207	16,483	17,466	17,672
Bonds of the policy banks	22,994	29,888	28,582	40,679
Bonds issued by other banks and non-bank financial institutions	924	1,461	1,987	1,594
Corporate bonds	–	–	920	1,303
Bills of the central bank	2,793	2,698	–	–
Total	45,918	50,530	48,955	61,248

Note:

(1) Primarily includes bonds issued by provinces, autonomous regions, municipalities and cities specifically designated in the state plan.

In respect of our investments in bonds, we conduct scenario analysis through various analytical tools on market risks such as adverse movement of asset prices and adverse movement of benchmark rates on the market, and formulate corresponding contingency plans and make adjustments to our investment strategy in a timely manner. See "Risk Management – Mark Risk Management – Market Risk Management for the Banking Book – Interest Rate Risk Management". As of December 31, 2011, 2012 and 2013 and June 30, 2014, we held bond investments with an aggregate principal amount of RMB45,918 million, RMB50,530 million, RMB48,955 million and RMB61,248 million, respectively. In 2011, 2012, 2013 and the six months ended June 30, 2014, the interest income from our investments in bonds was RMB1,705 million, RMB1,793 million, RMB1,855 million and RMB1,137 million, respectively, and during the same periods, the annualized average yield of such investments calculated based on the daily average balance was 3.6%, 3.8%, 3.9% and 4.3%, respectively.

As of December 31, 2011, 2012 and 2013 and June 30, 2014, our weighted averages of the agreed return on our investments in bonds were 3.7%, 3.8%, 4.1% and 4.3%, respectively. We have been awarded the "Outstanding Proprietary Business Settlement Member of the Year in the Inter-bank Bond Market (年度銀行間債券市場自營業務優秀結算成員)" by the China Central Depository and Clearing Co., Ltd. for four consecutive years since 2009.

Our treasury policy on bond investments is to invest primarily in bonds of lower risk and higher liquidity such as bonds issued by the MOF and bonds of the policy banks, in order to maintain liquidity and stability of investment yields of our assets. During the Track Record Period, we had not invested in any bonds issued by the PRC local governments financing vehicles.

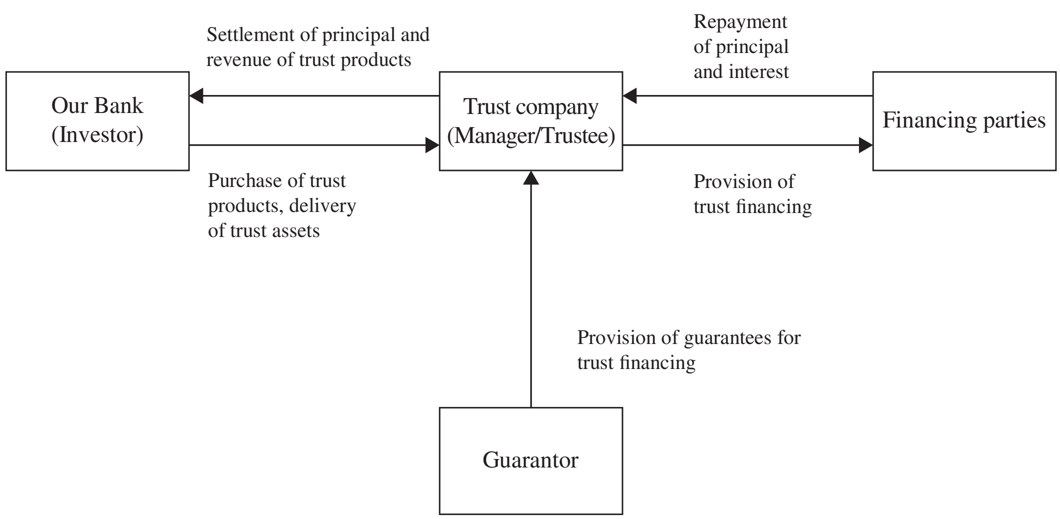
Investments in Debt Instruments Issued by Financial Institutions

Our investments in debt instruments issued by financial institutions mainly include trust beneficiary rights, directional asset management plans and wealth management products issued by other PRC commercial banks.

Trust Beneficiary Rights

Trust beneficiary rights are financial instruments linked to the beneficiary rights under the trust plans sponsored by trust companies. As of December 31, 2011, 2012 and 2013 and June 30, 2014, the balances of our investments in trust beneficiary rights using funds at our disposal were RMB1.81 billion, RMB15.14 billion, RMB11.74 billion and RMB13.85 billion, respectively. In 2011, 2012, 2013 and the six months ended June 30, 2014, the interest income from such investments was RMB27 million, RMB989 million, RMB1,800 million and RMB606 million, respectively, and the annualized yields of such investments based on the average daily balance were 8.4%, 8.5%, 9.8% and 10.6%, respectively. For reasons for the changes in the balances of our investments in trust beneficiary rights, please see "Description of Our Assets and Liabilities – Assets – Financial Investments – Debt Investments".

By investing in trust beneficiary rights, we entrust trust companies to manage the funds we provide, and the trust companies subsequently grant credit facilities to the financing parties in their own names. The financing parties' obligations owed to the trust companies are secured by mortgages or pledges granted by the financing parties over their properties to the trust companies or by the irrevocable and joint and several guarantee provided by guarantors to the trust companies. The financing parties use the funds provided by trust companies for business operation, and are required to repay the principal as well as the agreed returns within the trust term. The following chart shows the relationship among the parties involved in our investments in trust beneficiary rights:



As of June 30, 2014, the investments with funds at our disposal in trust beneficiary rights were used for providing funds to the following types of financing parties: (i) approximately 28.3% to the wholesale and retail sector; (ii) approximately 18.7% to the urban infrastructure construction industry; (iii) approximately 11.7% to the real estate industry; (iv) approximately 10.5% to the transportation industry; (v) approximately 8.3% to the service sector; (vi) approximately 7.2% to the construction industry; and (vii) approximately 7.2% to the water conservancy, environment and public facility management industry. The remaining 8.1% was extended to financing parties in other industries. Except for the urban infrastructure construction and the real estate industry, the trust beneficiary rights where we invested were not used to extend funds to any financing parties in the industries in which the PRC government imposes restrictions on credit extension.

Our investment strategy with respect to trust beneficiary rights is to achieve a long-term stable return on investments by investing funds, which are legally owned and freely disposable by us, into financial products issued or sponsored by trust companies. We believe that such financial products have a manageable risk and a stable return and are in compliance with the government's industrial and regulatory policies. In doing so, we make relevant investment decisions after taking into account factors such as the trends in the development of the PRC financial markets and the experience of other financial institutions.

We have been advised by Tian Yuan Law Firm, our PRC legal advisor, that in accordance with the Trust Law of the PRC, the trust property shall be segregated from the property owned by the trustee, and may not be included in, or become part of, the trustee's own property. Therefore, any security deposits obtained from the guarantor may not be used to repay the trust companies' own debts. The security interests over the trust property or our investments in trust beneficiary rights should not be affected even if the trust companies encounter any financial difficulties.

Repayment of principal and interest of our trust beneficiary right investments is fully secured by properties, land, company shares provided by the financing parties or third parties or third-party guarantee. As of June 30, 2014, approximately 66.3% of the fund extended under our investments in trust beneficiary rights was secured by properties and land, approximately 26.1% of such fund was secured by company shares, and approximately 7.6% of such fund was secured by third-party guarantees. We only accept collateral of properties and land with clear, legal and valid title and ownership. The value of such collateral is assessed and determined by our designated appraisal institutions. We typically require the loan-to-value ratio (representing the loan amount divided by the value of the collateral) to be no more than 50%. We will not accept pledges of company shares of value less than the aggregate amount of principal and interest payable by the borrower. We will review the business operation, financial condition, credit quality and ability to repay of the guarantors to ensure their capabilities of performing guarantee obligation.

We have managed the risks of our investments in trust beneficiary rights mainly through the following three ways:

- We would examine the due diligence investigation conducted by the trust company on the financing parties and the financing projects before our investments, fully participate in the due diligence investigation on the financing project, and carry out a corresponding credit assessment of the financing project and financing party.

- Pursuant to the agreement between the trust company and us, the trust company is required to effectively manage the trust plans. If the trust company discovers certain risks that would adversely affect our investments in trust beneficiary rights, the trust company is required to notify us immediately and take actions to reduce the risks.

- If the trust company is unable to fully recover the agreed returns on and the principal of our investments from the financing parties, we would request that the trust company take actions such as bringing a lawsuit in accordance with laws to mitigate our losses, and exercise security right against the guarantor to recover any losses.

Each of our investments in trust beneficiary rights is subject to a multi-tiered, case-by-case approval process. The initiating department is responsible for investment due diligence; the legal affairs department and the compliance department are responsible for reviewing legal documents and rights and obligations of the parties to the investment; the risk assessment department is responsible for assessing the investment risk and proposing risk prevention measures, and submits the investment proposal to the Policy and Review Committee for Risks of Asset Investment, Operation and Management at our head office for approval. Only after the approval procedure is completed may our investments be made directly by the head office in accordance with the conditions of the approval. See "Risk Management – Risk Management Framework – Senior Management and Special Committees under Senior Management – Policy and Review Committee for Risks of Asset Investment, Operation and Management".

Although our corporate loan business and investments in trust beneficiary rights both involve financing parties, there are a number of key differences in the following aspects: (i) the investments in trust beneficiary rights is one of our inter-bank business while the corporate loan business is a type of traditional lending business; (ii) in terms of risk management, we manage both our trust beneficiary right investments and corporate loans in our centralized credit management system; however, the trust beneficiary right investments are subject to centralized approval and management by our head office while we implement differentiated credit extension and authorization management in branches for the loan businesses; (iii) the average investment yields of trust beneficiary rights are generally higher than those of corporate loans. As of June 30, 2014, the interest rates of our RMB-denominated corporate loans (other than bill acceptances) ranged from 5.04% to 15.00%, with lower interest rates offered to core corporate customers which have a long term strategic cooperation relationship with us. In the six months ended June 30, 2014, the average annualized investment yield of our corporate loans was 8.05%. As of June 30, 2014, the investment yields of our trust beneficiary right investments ranged from 7.08% to 15.50%. In the six months ended June 30, 2014, the annualized investment yields of our trust beneficiary right investments based on the average daily balance was 10.6%. Although the average investment yields of trust beneficiary rights are generally higher than those of corporate loans, the ranges of the investment yields of both corporate loans and trust beneficiary right investments overlap significantly. Banks generally would consider various factors in their credit extension, including monetary and credit policies, credit market supply and demand and customer loyalty of and overall contribution to the banks by, the financing parties. In selecting the customers and financing projects for investments through the trust beneficiary rights, we, on the conditions that the projects must be legal and subject to manageable risks, mainly select the customers and projects with high yields and better growth prospects; and (iv) in the event of default by the financing parties of corporate loans, we may, depending on the form of loan security, foreclose the loan collateral, or initiate legal proceedings against the financing parties or the guarantors; in the event of default by the financing parties of trust beneficiary rights, we will, pursuant to the trust beneficiary rights contracts, request the trust companies to take measures to enforce their rights under the mortgages, pledges or guarantees, including initiating lawsuits against the financing parties, so as to effectively control the risks associated with our investments. We may also bring claims against the trust companies for their failure to perform their obligations of managing the trust beneficiary rights projects pursuant to the trust beneficiary rights contracts. In addition, the trust companies do not provide any guarantee in relation to the trust beneficiary rights they issued. See "Risk Management – Credit Risk Management – Credit Risk Management for Corporate Banking" and "Risk Management – Credit Risk Management – Credit Risk Management for Treasury Business – Credit Risk Management for Investment Business". Our corporate loans and financings provided under trust beneficiary rights projects do not differ significantly in maturity, credit quality and levels and types of security. Because the trust property is segregated from the property owned by the trustee, the security interests over the trust property or our investments in trust beneficiary rights should not be adversely affected even if the trust companies encounter any financial difficulties.

Our decision in making trust beneficiary right investments depends on various factors, including (i) we can enhance our business and product cooperation relationship with non-bank financial institutions and expand our customer base and business lines through inter-financial institution investment business; (ii) in light of the trend of financial disintermediation and interest rate liberalization, we can meet customer preference over different forms of financing and enrich the types of our services to customers; (iii) the investment yields of trust beneficiary rights are generally higher than those of corporate loans and other investment products on the market so that we can achieve high investment return through trust beneficiary rights. For the six months ended June 30, 2014, the annualized yield of the trust beneficiary rights based on the average daily balance was 10.6%, which was higher than the average yield of the corporate loans and the annualized yield of government bonds and bonds issued by policy banks for the same period, which was 8.05%, 3.8% and 4.4%, respectively; (iv) investing in trust beneficiary rights can also expand the means by which we can acquire new customers and retain more customers and improve our market penetration; and (v) we believe that the risks associated with our investments in trust beneficiary rights are reasonably manageable. The principal and expected yield of our investments in trust beneficiary rights are fully secured by mortgages, pledges and/or guarantees provided by the financing parties and/or third-party guarantors. In addition, we have taken measures to manage the risks associated with our investments in trust beneficiary rights throughout the process. For instance, we have established a counterparty evaluation system to conduct credit assessment on the financing parties, and require the financing parties or third-party guarantors to provide mortgages, pledges or irrevocable guarantees as security for their obligations under the trust beneficiary rights agreements.

During the Track Record Period and as of the Latest Practicable Date, our investments in trust beneficiary rights had remained in normal operation and the payments of principal and interest had been duly made without any default. We have not sustained any loss arising from our investments in trust beneficiary rights.

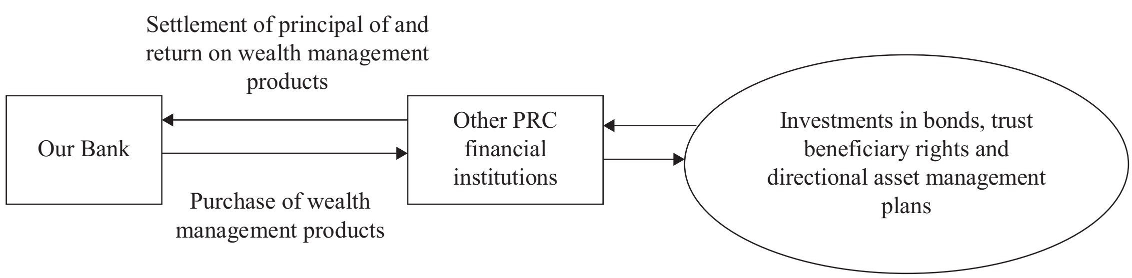
Directional Asset Management Plans

Under our directional asset management plans, we primarily invest in negotiated deposits with other banks or bank acceptance bills held by enterprise customers. We enter into directional asset management contracts with quality asset management companies or quality securities companies which are qualified for conducting asset management business and well-known in relevant fields. As of June 30, 2014, such asset management companies or securities companies generally had more than RMB10 billion assets under their management. Pursuant to the terms and conditions of those contracts, we provide the asset management companies or securities companies with written investment instructions, which set out the particulars of the products we plan to invest using our funds, such as the amount, term, interest rate and bank account name of the negotiated deposits. The asset management companies or securities companies then invest our funds pursuant to our written instructions, through our accounts in third-party custodian banks in accordance with the terms and conditions of those contracts. The funds under the directional asset management plans are managed by asset management companies or securities companies in accordance with the terms of the directional asset management contracts in designated accounts with third-party custodian banks which are also parties to the directional asset management contracts. The asset management companies or the securities companies will be responsible for our loss resulting from their management of our entrusted funds not in compliance with our investment instructions or the terms and conditions of the directional asset management contracts. The custodian banks will be responsible for any losses incurred by the asset management companies or securities companies or us as a result of their failure to perform custody services in accordance with the directional asset management contracts. The asset management companies or the securities companies do not provide any guarantee in relation to the directional asset management plans they sponsored. In the event of default of the banks issuing negotiated deposits or the banks guaranteeing bank acceptance bills in which our directional asset management plans invest, we would request the asset management companies or the securities companies to take actions against the banks to mitigate our losses. During the Track Record Period, the banks which issued negotiated deposits or guaranteed bank acceptance bills in which our directional asset management plans invested were all our inter-bank customers which satisfy our risk evaluation for inter-bank business and are managed according to inter-bank credit extension requirements, and the third-party custodian banks were all banks on our "entry list" for financial market counterparties which satisfy our risk evaluation for inter-bank business counterparties, including Large Commercial Banks, Nationwide Joint-stock Commercial Banks and quality city commercial banks. We started to invest in directional asset management plans in 2013. As of June 30, 2014, we had entered into directional asset management contracts with six securities companies and four asset management companies, and the balance of our investments in directional asset management plans was RMB40.9 billion. For the six months ended June 30, 2014, the interest income from such investments was RMB580 million and the annualized yield of such investments based on the average daily balance was 5.93%. For reasons for the changes in the balances of our directional asset management plans, please see "Description of Our Assets and Liabilities – Assets – Financial Investments – Debt Investments".

We manage the credit risks of directional asset management plans by centralized approval and management by our head office. The Financial Market Operation Center in our head office strictly reviews and approves directional asset management plans within its authorization in accordance with our relevant policies. For those directional asset management plans beyond its authorization, the Financial Market Operation Center, after conducting a preliminary review, will submit them to the Risk Control Center, which will carry out independent risk evaluation on those directional asset management plans, based on which the Policy and Review Committee for Risks of Asset Investment, Operation and Management will make the final decision. See "Risk Management – Credit Risk Management – Credit Risk Management for Treasury Business – Credit Risk Management for Investment Business".

Wealth Management Products Issued by Other Financial Institutions

We invest in wealth management products issued by other financial institutions. Such financial institutions then invest the proceeds in bonds, trust beneficiary rights and directional asset management plans. During the Track Record Period, the wealth management products we invested in are generally non-principal protected and offered floating investment yields depending on the portfolio investments under each product. According to the contracts we entered into with the financial institutions issuing wealth management products, the financial institutions generally shall pay to us the investment yields annually and the principal and any outstanding investment yields upon the maturity of the products. The financial institutions issuing wealth management products are entitled to receive certain sales fees and/or administration fees, depending on the terms and conditions of the contracts. The following chart illustrates the relationship among the parties involved in our investments in wealth management products issued by other financial institutions:



As of December 31, 2011, 2012 and 2013 and June 30, 2014, the balances of our investments in wealth management products issued by other financial institutions were RMB1,616 million, RMB830 million, RMB330 million and RMB330 million, respectively. In 2011, 2012 and 2013 and the six months ended June 30, 2014, the interest income from such investments was RMB25.61 million, RMB117.00 million, RMB31.31 million and RMB10.31 million, respectively. As of December 31, 2011, 2012 and 2013 and June 30, 2014, the weighted averages of the agreed return on such investments were 6.2%, 6.1%, 6.3% and 6.3%, respectively. During the Track Record Period, our investments in the wealth management products issued by other financial institutions generally decreased mainly because (i) certain wealth management products of financial institutions came to maturity; and (ii) we decided to reduce the investments in this asset type due to its higher risk weighting of 100% (compared to other assets of lower risk weighting such as government bonds and bonds issued by policy banks which have a 0% risk weighting and directional asset management plans which have a risk weighting of 25%) in order to optimize capital allocations by increasing investments in lower risk weighted assets with generating stable investment returns. See “Description of Our Assets And Liabilities – Assets – Financial Investments – Debt Investments”.

As of June 30, 2014, all of the wealth management products issued by other financial institutions in which we invested were non-principal protected. In order to manage the credit risk from our investments in the wealth management products, our head office centrally approves and manages our investments, and no branches or sub-branch may conduct any such business without prior authorization from our head office. In addition, we manage the credit risks of the financial institutions issuing the wealth management products according to the centralized credit extension management over the banks of our inter-bank business, assess operating condition, financial condition, off-balance sheet commitment, compliance with regulatory indicators, risk events, proposed cooperation and other indicators of these financial institutions, and determine reasonable limits on our investments in accordance with our assessment, as well as our asset and liability structure and credit approval requirements. See "Risk Management – Credit Risk Management – Credit Risk Management for Treasury Business" for details.

The market risks of our investments in wealth management products issued by other financial institutions primarily arise from the potential losses in the principal or the yield of the wealth management products as a result of the price fluctuations of the underlying assets of the wealth management products. In order to manage the market risks of such investments, we limit the underlying assets in which the wealth management products may invest to only those products considered to have low risks after our assessment, including bonds issued by the MOF on the inter-bank bond market, central bank bills, financial bonds and bonds issued by companies with a high credit rating.

Our team members responsible for our investments in securities and other financial assets are familiar with the macroeconomic policies of the PRC government which are applicable to the development of the industry and the operating system of the PRC financial markets. They are also experienced in investment operations, risk management and market analysis and judgment, and can implement our overall investment strategy effectively to achieve favorable returns on investment. Our head office adopts a centralized approval system to manage the credit risk of investments in securities and other financial assets. See "Risk Management – Credit Risk Management – Credit Risk Management for Treasury Business" for details.

Bond Underwriting and Distribution

Our bond underwriting and distribution businesses include (i) our underwriting business, under which we subscribe for bonds in the primary markets as an underwriting member of the underwriting syndicates, and (ii) our distribution business, under which we bid for bonds on behalf of other institutions and transfer relevant bond subscription rights to such institutions after we have won the bidding within the stipulated distribution period. We are a member of an underwriting syndicate in respect of the financial bonds of the China Development Bank, the Export-Import Bank of China and the Agricultural Development Bank of China, and were named the "Outstanding Underwriter of Financial Bonds of the Year (年度金融債券優秀承銷商)" by the Agricultural Development Bank of China in 2013. We are also qualified to underwrite bonds issued by non-financial enterprises and receive underwriting fees pursuant to relevant underwriting agreements. In 2013, the principal amount of bonds underwritten by us was RMB17.15 billion.

Inter-bank Discounts and Rediscounts of Bills

We engage in inter-bank 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 inter-bank discount services such as bills buyout, bills sell-out, bills held under reverse repurchase agreements and bills held under repurchase agreements. We rediscount bills in accordance with the requirements of the PBOC.

Treasury Business Conducted on Behalf of Customers

Our treasury business also includes the management of proceeds received from the issuance of wealth management products to our corporate and personal customers.

In 2011, 2012 and 2013 and the six months ended June 30, 2014, the average size of each tranche of wealth management products we issued was RMB132 million, RMB176 million, RMB136 million and RMB144 million, respectively. The table below sets out a breakdown, by the size of each tranche, of the wealth management products issued by us.

	Year ended December 31,						Six months ended June 30,	
	2011		2012		2013		2014	
	Number of tranches issued	Amount	Number of tranches issued	Amount	Number of tranches issued	Amount	Number of tranches issued	Amount
	(in millions of RMB)							
Up to RMB10 million	–	–	1	3	2	18	–	–
Over RMB10 million to RMB50 million	1	30	3	118	7	200	8	278
Over RMB50 million to RMB100 million	4	327	3	291	13	1,020	16	1,193
Over RMB100 million to RMB500 million	2	565	8	1,806	13	3,520	10	2,558
Over RMB500 million	–	–	1	597	–	–	1	1,000
Total	7	922	16	2,815	35	4,758	35	5,029

We classify the wealth management products we issued into five categories based on their risk levels according to the Measures for the Administration of the Sale of Wealth Management Products of Commercial Banks (《商業銀行理財產品銷售管理辦法》) (CBRC Order [2011] No. 5) issued by the CBRC in 2011. Our wealth management products issued in 2011, 2012 and 2013 were all classified as risk level 3 (relatively low probability of default of the principal and the receipt of expected yield subject to uncertainty). For the six months ended June 30, 2014, our wealth management products classified as risk level 2 (less susceptible to risk factors and relatively low probability of default of the principal and the expected yield) and risk level 3 was RMB4,148 million and RMB881 million, respectively, representing 82.5% and 17.5% of our total wealth management products issued during this period. As of June 30, 2014, the outstanding amount of wealth management products issued by us was RMB1,720 million. In

2011, 2012, 2013 and the six months ended June 30, 2014, the proceeds raised by the wealth management products issued to our corporate and personal customers under our "Red Rose" brand were RMB922 million, RMB2,815 million, RMB4,758 million and RMB5,029 million, respectively. For the same periods, the net fees, commissions and other incomes from the wealth management products issued by us were RMB0.11 million, RMB0.28 million, RMB2.78 million and RMB1.99 million, respectively.

We invested the proceeds from our wealth management products mainly in deposits with banks, negotiated deposits and bonds. As of December 31, 2011, the outstanding amount of our wealth management products was nil. As of December 31, 2012, the outstanding amount of our wealth management products was RMB100 million, which was all invested in bonds. As of December 31, 2013, the outstanding amount of our wealth management products was RMB731 million, RMB349 million of which was invested in deposits with banks and RMB382 million of which was invested in bonds, representing 47.7% and 52.3%, respectively, of the outstanding amount of our wealth management products. As of June 30, 2014, the outstanding amount of our wealth management products was RMB1,720 million, RMB1,456 million of which was invested in deposits with banks and RMB264 million of which was invested in negotiated deposits, representing 84.7% and 15.3%, respectively, of the outstanding amount of our wealth management products. As the principal and expected yield of the wealth management products issued by us are not protected, we are not responsible for any loss of principal or expected yield sustained by investors from these products. During the Track Record Period and as of the Latest Practicable Date, all wealth management products issued by us had been under normal operation, the payment of principal and interest had been duly made without any default, and investors of our non-principal protected wealth management products had not sustained any losses.

In accordance with the requirements of the CBRC, we manage each of our wealth management products independently through separate accounts and book keeping, with each of our wealth management products earmarked for its underlying investment.

As of December 31, 2011, 2012 and 2013 and June 30, 2014, the terms of the wealth management products we issued ranged between one month to one year, with the majority of the products the terms of which ranged between one month to three months. In principle, we keep the maturity of our wealth management products the same as that of the underlying investments. During the Track Record Period and prior to October 2014, in general, when developing a wealth management product, the Retail Banking Department of our head office would first determine the underlying investments we planned to make, including their maturity, and then it would determine the maturity of the relevant wealth management product consistent with the maturity of such investments after consulting the Financial Market Operation Center as to the demand of the proposed wealth management products. Since October 2014, we established the General Department of Wealth Management Business, a dedicated department solely responsible for the bank's wealth management products, which has generally first determined the underlying investments we plan to make, including their maturity, and it would then determine the maturity of the relevant wealth management product which is generally consistent with the maturity of such investments after considering the demand of the proposed wealth management products. As of December 31, 2011, 2012 and 2013 and June 30, 2014, there was no mismatch between the maturity of our wealth management products and that of the underlying investments.

PRICING

In compliance with applicable PRC regulatory requirements, we have established and continued to optimize a competitive product pricing mechanism based on risk-adjusted return. In determining our prices, we will consider various factors such as cost of funds, management cost, cost of risk and expected yield. In addition, we will also consider the contribution of each customer to our business, the overall market conditions as well as prices for similar products and services offered by our competitors. Our pricing policies and benchmark prices are determined by the Planning and Accounting Management Department at our head office. Our business units determine the specific prices for their respective 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. There has been no upper limit on interest rates for RMB-denominated loans since October 2004, and the lower limit, which had been at 70% of the relevant PBOC benchmark rate, was removed in July 2013. With respect to personal mortgage loans, the interest rate may not be lower than 70% of the relevant PBOC benchmark rate, and the interest rate for residential mortgage loans to second-time home buyers may not be lower than 110% of the relevant benchmark rate. See "Supervision and Regulation – Regulation of Principal Commercial Banking Activities – Lending". Interest rates for foreign currency-denominated loans are generally not subject to PRC regulatory restrictions, and we are permitted to determine freely the interest rates for such loans based on the market conditions.

We price our products based on various criteria such as a particular borrower's credit rating, risk profile, value of any collateral provided, intended use of the loan, market conditions and the term of the loan. We also consider, among others, the cost of the loan, our expected rates of return, associated risks, overall market conditions, our market position, as well as the pricing of our competitors. Based on these considerations, we seek to have a pricing mechanism that can match risks with return and can generally charge higher interest rates for customers with a higher risk profile. As interest rates for loans are increasingly liberalized, we expect to rely more on our ability to accurately calculate our expected risk-adjusted return on capital and further differentiate our pricing for loans based on our internal analysis.

We also differentiate the pricing of our corporate loans based on the business scale and contribution of customers, security and guarantees provided by customers and the industries in which customers operate. We generally enjoy greater pricing power against medium, small and micro enterprise customers than large corporate customers.

We price personal loans based on a risk-adjusted pricing principle, and generally apply higher risk-adjusted pricing to personal business loans and unsecured personal loans than other personal loans. We charge interest on credit card overdrafts at a fixed rate which is not tied to the PBOC benchmark interest rates.

With respect to the removal of the lower limit on interest rates for RMB-denominated loans, we expect that, in the short term, the probability of significant fluctuations in loan interest rates will be low due to regulatory control over the loan-to-deposit ratio of, and amount of credit extended by, commercial banks, and therefore the effect on us as a result of the removal of the lower limit on loan interest rates will be limited. However, we expect that, in the medium to long term, the new policy may have an adverse impact on our bargaining power against corporate customers. In order to ensure the overall loan profitability, we will implement a differentiated pricing mechanism. For enterprise customers with different bargaining capabilities, we will apply different interest rates, so as to mitigate the adverse impact arising from the removal of the lower limit on interest rates. See "– Marketing".

Deposits

Under the current PRC regulations, interest rates on our RMB-denominated deposits may not be higher than 120% of the relevant PBOC benchmark rates. We generally offer our RMB-denominated demand and time deposits at the highest interest rates permitted under the regulation to maintain our competitiveness. However, we may offer negotiated time deposits with higher interest rates based on the amount and term of deposits. See "Supervision and Regulation – Pricing of Products and Services – Interest Rates for Loans and Deposits". Starting from 2004, the PBOC liberalized deposit and lending interest rates among financial institutions, and we determine such rates based primarily on the market interest rates and our assets and liabilities management policies. In addition, we are permitted to negotiate the interest rates on foreign currency deposits other than those denominated in US dollar, Euro, Japanese Yen and HK dollar with a term of one year or less and in an amount less than US$3 million, which may not exceed the interest rates on small sum foreign currency deposits stipulated by the PBOC. Interest rates on inter-bank foreign currency deposits and foreign currency deposits of non-PRC residents are generally not subject to PRC regulatory restrictions, and we are permitted to negotiate the interest rates on such deposits. The benchmark rates of different types of our deposits are determined by our head office.

Intermediary Business

We generally determine fees and commissions for other products and services based on market conditions, except for certain services which are subject to the PRC government's guideline prices such as the price for basic Renminbi settlement services, which is specified by the CBRC and the NDRC. See "Regulation and Supervision – Pricing of Products and Services – Pricing for Fee- and Commission-based Products and Services".

MARKETING

We have established an integrated marketing system. Our head office formulates the overall development plans and strategies for and develops our bank-wide marketing initiatives and industry policies for, the corporate banking business and the retail banking business. In accordance with the marketing strategies of our head office, the branches are responsible for formulating specific marketing plans, allocating marketing resources and carrying out marketing activities based on their detailed analysis of the market and policy trends.

We encourage cooperation and cross-selling of products and services among different segments and business lines. Our head office proactively coordinates with our branches to compile customer information of each business segment, enhance joint development and maintenance of customer resources of different business lines, promote cross-selling among different business lines, and carry out joint marketing for customers of different business lines, so as to facilitate the joint development of our corporate banking business and retail banking business.

We strive to establish long-term strategic cooperative relationships with various levels of governments in Shenyang, and have entered into legally binding strategic cooperation framework agreements with a term of three years in general, with all district- and county-level governments in Shenyang to optimize our marketing resources. Pursuant to these strategic cooperation framework agreements, the relevant district- and county-level governments agreed to prioritize the use of our financial products and services under conditions such as entrusting us to provide the collection services within their jurisdictions in respect of various types of funds, including housing funds and social security funds, recommending us to projects that attract investors outside their jurisdictions, referring to us medium, small and micro enterprise loan businesses, and appointing us as the exclusive bank for providing convenient community financial services within their jurisdictions. We agreed, subject to the relevant regulatory policies of the PRC and our credit policies, to extend credit and other financial service to support their key investment projects for the development of such districts and counties. Meanwhile, we agreed to prioritize the provision of retail banking services to the staff of such district- and county-level governments and offer them preferential loan interest rates to the extent permitted by relevant policies.

We implement sequential management for our corporate banking customers, categorize the target markets and customers, and compile and update a list of target customers in order to achieve the tiered customer marketing, service and management. For example, we carry out the differentiated customer marketing management based on the size, industry position and overall contribution of customers. We focus on the establishment and maintenance of long-term and comprehensive strategic cooperative relationships with core and leading corporate customers in particular industries and regions, including large national or regional enterprises, and medium enterprises with the potential to develop into large national or regional enterprises. Furthermore, we rely on our core customers to further develop quality customers from their upstream suppliers and downstream distributors in the industry chain and conduct integrated marketing. For example, we granted comprehensive credit facilities to Shenyang City Public

Utility Group Company Limited (瀋陽城市公用集團有限公司) and, relying on our relationship with the company, we further entered into credit facilities agreements with Shenyang Huisheng Heating Company Limited (瀋陽惠盛供熱有限責任公司), Shenyang City Public Utility Group Coal Company Limited (瀋陽城市公用集團煤炭有限公司) and Shenyang City Public Utility Group Logistics Company Limited (瀋陽城市公用集團物流有限公司), which are in the same industry chain as 瀋陽城市公用集團有限公司, and entered into business relationship with other medium and small enterprises around it. We regularly select and update the list of core customers in accordance with their competitiveness in relevant industries and the contribution of a single corporate customer and a group customer to our business. In addition, as of the Latest Practicable Date, we had entered into legally binding strategic cooperation framework agreements with terms of three to ten years in general with 383 large or medium enterprise or public institution customers. Based on the strategic cooperative relationships with us, our customers have undertaken that they will, under the same conditions, prioritize the use of our products and services such as loans, discounted bills, trade financing, settlements, payroll, collection of charges and capital management, thus achieving efficient cross-selling. We win customer trust and increase their loyalty through efficient loan approval processes and other quality value-added services such as corporate wealth management services and high-end credit cards for corporate senior executives. In addition to our proactive development of large enterprise customers, we have also proactively developed the medium, small and micro enterprise customers which fit for the economic development of Shenyang, Liaoning Province and Northeast China such as customers in the high-end equipment manufacturing and modern service sectors which have benefited from the Strategy of Revitalization of the Old Industrial Base in Northeast China. We have also sought to secure a large number of medium, small and micro enterprise customers in major coastal cities in the Bohai Economic Rim and the Yangtze River Delta Economic Zone. As of June 30, 2014, we had 1,801 medium, small and micro enterprise customers.

Leveraging upon our quality core customer base, our marketing strategy enables us to further strengthen and expand the individual customer base to carry out cross-selling and enhance their customer loyalty. By doing so, we can increase our deposits and the funds in the payroll accounts of our customers and create the synergies between our corporate banking and retail banking businesses. Our branches outside Liaoning Province also benefited from our strategic cooperative relationships with core customers by offering products and services to their local branches as well as their upstream suppliers and downstream distributors, which promotes the business growth of our branches.

Based on the characteristics of our retail banking customers and products, we have formulated differentiated marketing strategies and resource allocation strategies and, by means of integrated marketing of corporate and retail banking businesses as well as joint marketing of loans denominated in RMB and foreign currencies, introduce to customers our bank cards, wealth management products, electronic banking and personal deposits and loans denominated in RMB and foreign currencies. We provide standardized services to ordinary customers mainly through traditional retail channels such as counters at our outlets and self-service banking facilities, and provide customized wealth management planning, professional market analysis and product recommendations to medium- and high-end customers by our customer managers or wealth management managers.

We promote our retail banking products and services through various physical and electronic distribution channels, including our head office, branches and sub-branches, financial service stations and self-service banking facilities, as well as telephone banking, mobile banking and online banking. We have also set up five wealth management centers in our branches including Shenyang, Beijing and Shanghai to provide dedicated wealth management services to our medium- and high-end customers, and wealth management centers in our large operating outlets to offer quality services in savings, settlement and credit facilities to corporate customers and medium- and high-end individual customers. See "– Distribution Network".

In addition to the agreements we entered into with district- and county-level governments in Shenyang and large and medium enterprise or public institution customers, we also entered into legally binding strategic cooperation agreements with governments at various levels in Shenyang in relation to the promotion of financial service stations and North United Cable Network Inc. in relation to the promotion of television banking. See "– Distribution Network – Financial Service Stations" and "– Distribution Network – Electronic Banking – Television Banking". Either party to such strategic cooperation framework agreements may terminate the agreement in case of the other party's failure to rectify a material breach of the agreement or the other party's violation of relevant laws or regulations.

DISTRIBUTION NETWORK

We provide our products and services through our multi-channel distribution network, including the branch network and electronic banking channels. As of June 30, 2014, in addition to our head office and the six county banks which we accounted for as subsidiaries in our consolidated financial statements, we had 143 branches and sub-branches, 412 financial service stations and 537 self-service banking facilities. We have also established electronic service channels such as online banking, telephone banking and mobile banking, and we expect to introduce our television banking service by the end of 2014.

Branch and Sub-Branch Network

As of June 30, 2014, we operated businesses in 14 cities, including Shenyang, Beijing, Shanghai, Tianjin, Changchun, Dalian and other cities in Liaoning Province, through our head office in Shenyang and 143 branches and sub-branches. Most of the 14 cities are located in economically developed regions such as Northeast China and the Bohai Economic Rim which have peculiar policy advantages and huge market opportunities. See "– Our Strengths". The following table sets forth the number of our branches and sub-branches as of the dates indicated.

	As of December 31,						As of June 30,	
	2011		2012		2013		2014	
Regions	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Shenyang	95	79.2%	96	76.2%	96	69.6%	97	67.8%
Beijing	3	2.5	3	2.4	4	2.9	5	3.5
Shanghai	1	0.8	1	0.8	3	2.2	4	2.8
Tianjin	6	5.0	6	4.8	8	5.8	8	5.6
Dalian	3	2.5	4	3.2	4	2.9	5	3.5
Changchun	1	0.8	2	1.6	4	2.9	4	2.8
Other cities in Liaoning Province	11	9.2	14	11.0	19	13.7	20	14.0
Total	120	100.0%	126	100.0%	138	100.0%	143	100.0%

We plan to continue opening new branches and sub-branches to further optimize our distribution network, business structure and customer base, as well as to facilitate the balanced development of our businesses.

Financial Service Stations

We have promoted and established financial service stations in Shenyang and other cities in Liaoning Province, as well as Beijing, Shanghai, Tianjin and Changchun since July 2013. The financial service station is a new financial service model jointly established by our Bank and entities such as communities, sub-district offices, property management units, public utilities toll stations and shopping malls, which allows us to promote our products and services in places close to customers. Our financial service stations accept appointments for a number of business applications (but do not process any application directly), including personal loans, bank cards, wealth management products, personal foreign exchange business, small and micro enterprise loans and comprehensive financial services. Financial service stations are cost efficient and can be quickly established with a wide coverage. Representatives from our sub-branches will regularly visit the financial service stations to promote our products and services, collect completed application forms and deliver them to the relevant branches and sub-branches for processing. Financial service stations are installed with inquiry and payment machines and some have community smart terminals. See "– Electronic Banking – Self-Service Banking".

As of June 30, 2014, we had a total of 412 financial service stations which helped develop approximately 17,925 new individual customers since we first established such stations and expand our distribution network rapidly. We have entered into legally binding strategic cooperative agreements with a term of three years in general with governments at various levels in Shenyang, and we have obtained exclusive rights to establish financial service stations in communities located in the relevant jurisdictions. We intend to expand the coverage of our financial service stations in the next three years to support our various business developments. See "Supervision and Regulation – Regulation of Principal Commercial Banking Activities – Business of Community Sub-Branches and Sub-Branches for Small and Micro Enterprises".

Electronic Banking

We have established an electronic banking service system comprising online banking, self-service banking, telephone banking and mobile banking, offering services such as account management, cash deposit and withdrawal, money transfer, and investment and wealth management to both corporate customers and individual customers, which has significantly improved the customer experience and satisfaction. In the six months ended June 30, 2014, 18,343,000 transactions of various business categories were processed through electronic banking, with a total transaction volume of RMB360,572 million, which accounted for 7.96% of our total transaction volume for the same period. We expect to launch our television banking service in 2014.

Online Banking

Our online banking platform, **www.shengjingbank.com.cn**, offers financial products and services to both our corporate customers and individual customers. Our corporate online banking products and services mainly include account management, collection and payment management, loan inquiry, international settlement, electronic bills and payroll services. Meanwhile, we provide services such as fund concentration and allocation and fund pool management to the large conglomerate customers to meet their need for fund management. Our services provided through personal online banking include account inquiry and management, transfer and remittance, self-service payment, investment and wealth management, credit card inquiry and repayment and personal loan inquiry. As of June 30, 2014, we had approximately 63,016 online banking customers, including 5,621 corporate customers and 57,395 individual customers. In the six months ended June 30, 2014, 322,116 transactions were processed through online banking with a total transaction volume of RMB355,760 million, respectively.

Self-Service Banking

Our self-service banking facilities include ATMs, cash recycling machines, inquiry and payment machines and community smart terminals. Our self-service banking facilities are placed in crowded areas in Shenyang and other regions where our branches are located, providing customers with balance inquiry, cash deposit and withdrawal, fund transfer, payment of public utilities bills and other services. Since June 2013, we have begun installing new community smart terminals, which is a type of self-service banking terminal, in our financial service stations. The community smart terminals not only have traditional functions such as balance inquiry, fund remittance and credit card repayment, but also provide other services such as cellphone charging, game card deposits, movie ticket purchases, flight ticket booking and public utilities bill payment. Customers can also use the community smart terminals to receive information about discounts offered by merchants contracting with us. Compared to normal self-service terminals, community smart terminals are more cost-efficient, smaller and more user-friendly, and can offer more convenient services to community residents and help improve our business operations. As of June 30, 2014, we owned 537 self-service terminals, including 255 ATMs, 111 cash recycling machines, 117 inquiry and payment machines, and 54 community smart terminals.

In the six months ended June 30, 2014, approximately 2,919,100 banking transactions were processed through our self-service banking facilities with a total transaction volume of RMB4,660 million, respectively.

Telephone Banking

We offer automated voice or teller-operated telephone banking services through our 24-hour nationwide customer service hotlines "4006996666 and 024-96666". The automated voice services include inquiry, transfer, self-service payment, report of loss and change of password, and the teller-operated services include business inquiry, outlet inquiry and complaint acceptance.

Mobile Banking

We introduced our mobile banking services in April 2014. Our mobile banking services include account inquiry, account management, money transfer and remittance, credit card repayment, purchase of personal wealth management products and other financial services. In addition, our mobile banking also offers value-added services to our customers, including ordering special-offer items and arranging appointments for business applications with branches and sub-branches. Our customers can enjoy secure and personalized banking services through their mobile phones and other mobile devices. Furthermore, we provide short messaging notification services to our customers, including short messages relating to bank account transactions, security verifications and bill payments.

Television Banking

We plan to introduce our television banking service in 2014. Under the legally binding strategic cooperation framework agreement between us and North United Cable Network Inc. (北方聯合廣播電視網絡股份有限公司北方聯合廣播電視網絡股份有限公司) (the exclusive operator of cable television in Liaoning Province), we plan to cooperate with North United Cable Network Inc. in promoting the application of the television banking system across Liaoning Province for a term of ten years, during which time an exclusive cooperation shall be maintained for the first five years. Our television banking service provides our customers with banking products and services at home via the digital television network. Such services include account inquiry, transfer and remittance, self-service bill payment, credit card inquiry and repayment and personal loan inquiry.

INFORMATION TECHNOLOGY

We believe that the use of information technology is critical to the efficient operation and performance of our business and our success and future growth. Our important operational and management areas that rely upon information technology include transaction processing, customer services, product management, risk management and financial management. The application of advanced information technology systems has greatly improved, and will continue to optimize our efficiency, the quality of our customer service and our risk and financial management capabilities. We have made, and will continue to make, investments in our information technology systems based on our actual business needs. In 2011, 2012, 2013 and the six months ended June 30, 2014, our capital expenditures on information technology and the related equipment were approximately RMB36.2 million, RMB42.7 million, RMB77.0 million and RMB18.2 million, respectively.

Leadership and Professional Team

The information technology management committee under our senior management is responsible for reviewing and supervising the implementation of our information technology development strategies, plans, policies and standards, system establishment proposals for information security, as well as the implementation of plans and budgets for establishing our information technology.

The Information Technology Department of our head office is responsible for the research, development and management of our information technology projects, the operation, maintenance and upgrade of our information technology systems and infrastructures, as well as the internal control of information technology and information security management. We have an experienced information technology team. As of June 30, 2014, our information technology team consisted of 108 employees, of which 76 were from our head office and 32 were from our branches.

Information System

We have established an information technology platform for centralized data processing, thereby realizing the unified management of the processing, supporting and information systems for our business transactions. Our information systems include the product management system, distribution channel system, decision support system and other major systems. Our product management system mainly includes the core systems of major businesses and functions such as the core business system, integrated front system, international settlement system, credit card system, financial smart card system, anti-money laundering system and credit management system. Our distribution channel system provides support to various channels, including online banking, mobile banking, telephone banking, call center, self-service equipment and messaging system. Our decision support system mainly includes the risk management system.

We have taken a number of security measures to ensure the reliability of our business systems. For example, our core business system and other important information systems are backed up by two or more computers. We use the data protection technology to store the data of our core business systems. We have also formulated the data backup strategy, and backed up our data in three data centers located in two locations. Currently, we have three data processing centers, consisting of the major data center and the intra-city disaster recovery data center in Shenyang and the offsite disaster recovery data center in Yingkou.

We have also adopted a number of security measures to provide a high level of network security. We have established a financial smart card system to ensure reliable security of customer funds. Our application data security platform utilizes encryption throughout its processes from the input of user passwords to the core databases of the system, which ensures the security of confidential customer information. Our data centers operate and maintain an audit system to strengthen the management and audit of the authorizations of our operation and maintenance personnel. We have not sustained any major failure of the information technology system or associated losses during the Track Record Period and as of the Latest Practicable Date.

In order to meet the evolving regulatory requirements and business needs in corporate governance, risk management, business innovation and other aspects of our operation, we will continue to upgrade our core business systems, accelerate the construction of our Internet financing, management system and decision-making system, further enhance our risk control measures in respect of information technology and optimize our emergency management system, so as to provide technological support for our business development and operations.

COMPETITION

The banking industry in China is becoming increasingly competitive under the current macroeconomic environment. In particular, the introduction of and changes to relevant policies in the PRC in recent years have intensified competition in certain financial business areas of the domestic banking industry. See "Industry Overview – Current Competitive Landscape of Banking Industry in China and in Liaoning Province". We face competition mainly from other commercial banks in the regions where we operate, in which our main competitors include the five major state-owned commercial banks and Nationwide Joint-stock Commercial Banks with outlets in Liaoning Province and Shenyang. In addition, we face competition from other city commercial banks which have business operations in Liaoning Province and Shenyang. We compete with our competitors primarily on product offerings and prices, service quality, convenience of bank financing, brand recognition and information technology capabilities.

In addition, we compete with non-bank financial institutions in the provision of financial services. For example, we compete with small-loan companies in offering financings to small and micro enterprises and with insurance companies in attracting customer funds. Non-financial institutions, represented by internet finance, also impose competitive pressure on our business.

Competition between us and foreign financial institutions may be intensified 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 market of Liaoning Province and Northeast China. We expect to see greater competition from foreign financial institutions in the future. The intensifying competition may have adverse effects on our future business and results of operations. See "Risk Factors – Risks Relating to the Banking Industry in the PRC – We face intense competition from other participants of the PRC banking industry, as well as competition from alternative investment and financing channels".

In response to the aforementioned competitive environment, we intend to adopt measures such as expanding the business and service network, reinforcing the foundation of traditional businesses, innovating financial products and services and exploring diversified business development, so that we can continue to compete effectively in the commercial banking industry.

EMPLOYEES

As of December 31, 2011, 2012 and 2013 and the Latest Practicable Date, we had 2,983, 3,080, 3,575 and 4,020 employees, respectively. As of the Latest Practicable Date, our employees include 302 employees at our head office and 3,680 employees at our branches and sub-branches and 38 employees at our county banks. The table below includes a breakdown of our employees by function as of the Latest Practicable Date:

	As of the Latest Practicable Date	
	Number	**% of total**
Management	741	18.43%
Corporate banking	388	9.65
Retail banking	72	1.79
General bank tellers(1)	2,134	53.08
Treasury business	87	2.16
Finance and accounting	88	2.19
Risk management, internal control, and legal and compliance	77	1.91
Information technology	113	2.81
Others(2)	320	7.98
Total(3)	4,020	100%

Notes:

(1) General bank tellers are employees who provide front desk services for both our corporate banking and retail banking businesses.

(2) Include human resources, administrative and support staff.

(3) The above employees consist of employees with whom we have entered into employment contracts, and do not include retirees who received an early retirement package or independent contract workers.

The following table sets forth the total number of our employees by age as of the Latest Practicable Date.

	As of the Latest Practicable Date	
	Number	**% of total**
Under 30	1,688	41.99%
31-40	1,131	28.13
41-50	1,142	28.41
51-60	55	1.37
Above 60	4	0.10
Total	4,020	100.0%

The following table sets forth the total number of our employees by education level as of the Latest Practicable Date.

	As of the Latest Practicable Date	
	Number	**% of total**
Master's degree and above	299	7.44%
Bachelor's degree	2,785	69.28
Associate degree and vocational schools	936	23.28
Total	4,020	100.0%

We believe that our sustainable growth depends on the capability and dedication of our employees, and we recognize the importance of human resources in improving our business, financial condition and results of operations. We have devoted substantial attention and resources to recruiting and training our employees. We have also established a performance-based compensation system whereby an employee's compensation is determined based on position and performance review. We contribute to our employees' social insurance and provide housing funds and certain other employee benefits in accordance with the applicable PRC laws, rules and regulations.

Our labor union represents the interests of the employees and works closely with our management on labor-related issues. During the Track Record Period and as of the Latest Practicable Date, we had not experienced any strikes or other material labor disputes that had interfered with our operations, and we believe that the relationship between our management and the labor union has been satisfactory.

In addition to employees with whom we have entered into employment contracts, we had also engaged 290 independent contract workers through third-party human resource agencies as of the Latest Practicable Date. These independent contract workers are not our employees and generally hold non-key positions with us such as off-hour security personnel and cleaners. According to the PRC Labor Contract Law, there is no labor contract relationship between the independent contract workers and us, and the independent contract workers enter into labor contracts with the relevant human resource agencies. Pursuant to our agreements with the human resource agencies, we advance salary payments, social security contributions and other related payments for the independent contract workers to the human resource agencies. The human resource agencies, in turn, make payments of salaries to the independent contract workers and social security contributions and other related payments to relevant governmental entities.

PROPERTIES

Our head office is located at No. 109 Beizhan Road, Shenhe District, Shenyang, the PRC. As of the Latest Practicable Date, we owned 184 properties and leased 135 properties in the PRC.

Property Titles

As of the Latest Practicable Date, we held and occupied 184 properties with an aggregate GFA of approximately 343,971.32 square meters. Such 184 properties were primarily located in Shenyang, Beijing, Shanghai and Tianjin and mainly used as outlets or offices, with a GFA ranging from approximately 27.00 square meters to 40,082.31 square meters.

As of the Latest Practicable Date, out of the 184 properties, for 141 properties with an aggregate GFA of approximately 276,710.30 square meters, we had obtained building ownership certificates and land use right certificates by means of grant or lease; for 18 newly acquired properties with an aggregate GFA of approximately 22,809.74 square meters (the "Newly Acquired Properties"), we had obtained building ownership certificates but were in the process of obtaining land use right certificates, and for the 8 properties for which we have building ownership certificates but do not have any land use right certificates, or for which we have both building ownership certificates and land use right certificates but the land was allocated to us, we have paid the land premium (representing an aggregate GFA of approximately 3,257.69 square meters) (the "Premium-Paid Properties"). The Newly Acquired Properties and the Premium-Paid Properties represent approximately 7.58% of the GFA of our self-owned properties. For the Newly Acquired Properties, the developers, as sellers of such properties, are obliged to assist us in obtaining the relevant land use right certificates, and for the Premium-Paid Properties, we are in the substantive review stage of obtaining the land use right certificates designating the land as granted land. As advised by Tian Yuan Law Firm, our PRC legal advisor, pursuant to the PRC Contract Law, the PRC City Real Estate Administrative Law, the PRC Land Administrative Law and other applicable laws and regulations, there are no material legal obstacles to us in obtaining such land use right certificates or land use right certificates designating the relevant land as granted land.

The remaining 17 properties covered an aggregate GFA of approximately 41,193.59 square meters, representing approximately 11.98% of the GFA of our self-owned properties, which will be mainly used as outlets or offices. We have not obtained the complete title certificates for these properties mainly because the developers or co-builders did not cooperate with us to go through the relevant procedures and/or the relevant historical documents of these properties were missing. In particular:

(i) As of the Latest Practicable Date, we had obtained the building ownership certificates but not the land use right certificates for seven properties (excluding the Newly Acquired Properties and Premium-Paid Properties) with an aggregate GFA of approximately 13,867.42 square meters, representing approximately 4.03% of aggregate GFA of our self-owned properties. As advised by Tian Yuan Law Firm, our PRC legal advisor, for such seven properties, the Newly Acquired Properties and the Premium-Paid Properties for which we do not have the land use right certificates, there is no substantial legal obstacles for us to possess or utilize the above-mentioned properties because we have obtained the relevant building ownership certificates. However, pursuant to the PRC Property Law, the Land Registration Measures and other applicable laws, rules and regulations, our transfer, mortgage or otherwise disposal of such properties may be restrained before we obtain the relevant land use right certificates. In the event that the land on which those properties were erected was auctioned or disposed of, the buildings owned by us on the land will also be auctioned or disposed of in conjunction with such land. Under this circumstance, we may lose the ownership of these buildings, but we are entitled to the proceeds from the auction or disposal of these buildings.

(ii) As of the Latest Practicable Date, we had obtained the land use right certificate, but not the building ownership certificate for one property with a GFA of approximately 19,844.00 square meters, representing approximately 5.77% of aggregate GFA of our self-owned properties. As advised by Tian Yuan Law Firm, our PRC legal advisor, pursuant to the PRC Property Law, the Buildings Registration Measures and other applicable laws, rules and regulations, we may not legally transfer, mortgage or otherwise dispose of the property before we obtain the relevant building ownership certificate for the property.

(iii) As of the Latest Practicable Date, we had not obtained the building ownership certificates or land use right certificates for four properties with a GFA of 3,187.42 square meters, representing approximately 0.93% of aggregate GFA of our self-owned properties. As advised by Tian Yuan Law Firm, our PRC legal advisor, pursuant to the PRC Property Law, the Buildings Registration Measures, the Land Registration Measures and other applicable laws, rules and regulations, we may not legally transfer, mortgage or otherwise dispose of such properties before we obtain the relevant building ownership certificates and the land use right certificates for these properties.

(iv) As of the Latest Practicable Date, we had obtained the building ownership certificates and land use right certificates for five properties (excluding the Premium-Paid Properties) with a GFA of 4,294.75 square meters, representing approximately 1.25% of aggregate GFA of our self-owned properties, but the land on which such properties were erected was allocated by the government. As advised by Tian Yuan Law Firm, our PRC legal advisor, such properties, as well as those Premium-Paid Properties for which we have land use right certificates but was allocated to us, are mainly used as our outlets and warehouses and do not fall within the permissible usages of the allocated land under the PRC Land Administrative Law. Pursuant to the PRC Land Administrative Law and the PRC City Real Estate Administrative Law, if we fail to complete the procedures for converting the land from allocated land to granted land, any subsequent transfer of the properties may be restricted to a certain extent. We are in the process of completing such procedures.

We confirmed that as of the Latest Practicable Date, we had not experienced any material adverse effect on our business operations as a result of the above-mentioned properties with title defects, nor have we been informed by the government authorities or anyone else that we must cease using the above-mentioned properties. We undertake to use our best efforts to obtain the building ownership certificates and land use right certificates and/or complete land grant procedures and we expect to obtain the relevant certificates and/or complete the relevant procedures by the end of 2015. We believe we can replace the relevant properties, if necessary, with other alternative properties, and that cost for such replacement is not high and it will not have a material adverse effect on our operations. As of June 30, 2014, our properties, including land and buildings, represented approximately 0.45% of our total assets. Our Directors confirmed that these properties, whether individually or in the aggregate, are not material to us for our business operations.

As of June 30, 2014, the maximum book value of our property interests was approximately RMB224.56 million, representing 0.05% of our total assets. As a result, we are exempted from compliance with the requirement of including a property valuation report under the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance. Pursuant to Rule 5.01A of the Listing Rules, if the book value of the property business and non-property business of a listing applicant are below 1% and 15%, respectively, the prospectus will be exempted from compliance with such requirement. In respect of the requirements under section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance and paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, similar waivers are also available under section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

Leased Properties

As of August 31, 2014, we leased 135 properties in the PRC with an aggregate lettable area of approximately 67,849.63 square meters. Our leased properties are primarily located in Shenyang, Dalian, Changchun, Beijing, Shanghai and Tianjin of the PRC and are mainly used for business operations and offices, with a lettable area for each property ranging from approximately 1.50 square meters to 3,562.23 square meters.

As of August 31, 2014, for the 135 properties we leased in the PRC, 14 properties were leased from lessors who were not able to provide supporting documents showing their right to lease the properties, including relevant title certificates or authorization papers, representing an aggregate lettable area of approximately 4,051.38 square meters, which were mainly for commercial uses such as business operations, offices and warehouses. The lessors should ensure that they have the right to lease such properties to us. We have proactively procured these lessors to apply for the relevant title certificates or provide us with supporting documents showing their legal right to lease these properties including relevant authorization papers. As of the Latest Practicable Date, the lessors of eight properties had issued written confirmations, covering an aggregate GFA of 923.41 square meters, confirming that they were entitled to sign the lease contracts and/or agreeing to compensate us for losses arising from defective legal titles of such properties.

As advised by Tian Yuan Law Firm, our PRC legal advisor, pursuant to the PRC Property Law, the Commercial Real Estate Lease Administrative Measures and other applicable laws, rules and regulations and judicial interpretations, if the lessor does not have the ownership of the leased properties and/or the lessor does not obtain the authorization or consent from the owners of the leased properties, the lessor may not lease such properties. In such case, any potential objection by a third party to the validity of such leases may affect our ability to continue to lease the above-mentioned properties, but we could still claim damages against the lessors pursuant to the lease agreements and/or the written confirmation of the lessors; in addition, in the event that the lessor has entered into more than one lease agreement for the same property, we may still be deemed as the legitimate lessee of such property pursuant to the relevant judicial interpretations.

As of August 31, 2014, among our leased properties, the lease contracts for six properties with an aggregate lettable area of approximately 2,388.00 square meters had expired. The lessors of these properties have permitted us to continue to use these properties at present, and we are discussing with lessors on matters regarding the extension as of August 31, 2014.

As of August 31, 2014, among our leased properties, there are 100 properties with an aggregate GFA of approximately 54,318.90 square meters for which we either have completed the lease registrations in accordance with the relevant PRC laws or do not need to complete the lease registrations according to local requirements or policies. As of August 31, 2014, we are in the process of completing the lease registrations for seven properties among the above-mentioned 100 properties with an aggregate GFA of approximately 4,960.11 square meters of which the previous filing records have expired. We have not made any lease registrations for the remaining leased properties.

As advised by Tian Yuan Law Firm, our PRC legal advisor, according to relevant laws, regulations and judicial interpretations, non-registration of the leased properties will not affect the validity of the lease contracts, but we may be subject to sanctions imposed by the competent PRC authorities due to such non-registration. Pursuant to the Administration Measures on Lease of Commercial Properties, we may be ordered by the competent PRC authorities to make rectification for any non-registration within a specified period of time and may be subject to a fine in an amount ranging from RMB1,000 to RMB10,000 in the event of any delay in making such rectification. During the Track Record Period and as of the Latest Practicable Date, we were not subject to any administrative penalties by the relevant housing administrative authorities in the PRC due to our failure to complete the lease registration procedures.

With respect to the above-mentioned defective legal titles and the non-registration, as such properties represent a relatively small aggregate GFA and are located in different locations, the probability of changes in the ownership of all or the majority of buildings or other circumstances resulting in disposals of the properties is low. The Directors are of the view that such defects would not, whether individually or in the aggregate, have a material adverse effect on our business. If we are required to relocate as a result of a third party acquiring ownership of such buildings, land use rights of the land on which such buildings are located or lease rights of such properties by making legal claims or initiating legal proceedings, we believe that we can replace the relevant properties with alternative properties to continue business, that such relocations are not costly and will not have a material adverse effect on our business and financial condition, and that we can make claims against lessors according to the terms of the lease contracts. We have made preparations and formulated plans for potential relocations in order to mitigate our expenses and the potential impact to the minimal extent possible, including examining the relevant properties and evaluating the probability of them becoming unavailable, seeking similar and compliant properties in the vicinity and making relocations in advance. See "Risk Factors – Risks Relating to Our Business – Issues relating to land use right and building ownership may disrupt our ability to occupy and use certain properties we own and/or lease from third parties".

Properties to be Acquired

As of the Latest Practicable Date, we had entered into contracts to purchase 27 properties with an aggregate GFA of 15,511.24 square meters for intended uses as outlets or offices. As of the Latest Practicable Date, these properties had not been completed or had been completed but not yet transferred to us, and the land use rights and building ownership of these properties had not been transferred to us. Our PRC legal advisor, Tian Yuan Law Firm, advised us that the real estate purchase and sale agreements entered into between the sellers and us are legally binding upon the sellers and us, and that since we have either paid up the purchase price or made payments in installments pursuant to the purchase contract, pursuant to the PRC Contract Law, the PRC Property Law, the PRC Real Estate Administrative Law and other applicable laws and regulations, there is no material legal impediment to complete the acquisition and obtain the rights of use and titles of these properties.

TRADEMARKS

We conduct business under the names and logos of . We are also the registered owner of the domain names "**www.shengjingbank.cn**", "**www.shengjingbank.com.cn**" and "**www.shengjingbank.net.cn**". Details of our intellectual property rights are set out in Appendix VII – "Statutory and General Information" to this prospectus. As of June 30, 2014, we were in the process of applying for the registration of 18 trademarks in the PRC. One of the 18 trademarks under application is subject to a pending administrative proceeding for which the hearing was conducted on October 13, 2014. We are involved in the proceeding as a third party. On December 8, 2014, the Bank received the judgment rendered by Beijing No. 1 Intermediate People's Court, in which the Objector's claim was dismissed. See "– Legal and Regulatory – Legal Proceedings" in this prospectus. We are in the process of applying for the registration of four trademarks in Hong Kong.

During the Track Record Period and as of the Latest Practicable Date, we were not aware of any material incidences of intellectual property rights infringement claims or litigations initiated by others or us.

LEGAL AND REGULATORY

Licensing Requirements

Our PRC legal advisor, Tian Yuan Law Firm, confirmed that, as of the Latest Practicable Date, we had obtained all necessary qualifications required for our operations as described in this prospectus.

Legal Proceedings

We are involved in certain legal proceedings in the ordinary course of our business. Most of these proceedings involve disputes in relation to loans or collection of loans arising from our banking operations. The legal proceedings against us include actions relating to customer disputes and claims brought by our counterparties on contracts related to our banking operations.

The trademark registration of the Bank's logo has not been completed pending an administrative litigation in the PRC. The Bank applied for registration of this trademark on March 12, 2007 in the PRC. During the application process, a certain individual (the "Objector") raised an objection on the ground that the trademark the Bank applied for registration was for the use on the same or similar product of, and bore resemblance to, his registered trademark "盛京圍場 (Shengjing Paddock)" (trademark registration number 4661937), and that the Bank's application constituted malicious preemptive registration and had infringed on the preexisting right of the Objector. The Trademark Review and Adjudication Board dismissed the objection and approved the registration of our trademark. Thereafter, the Objector filed an administrative litigation before Beijing No.1 Intermediate People's Court against the Trademark Review and Adjudication Board (as defendant), calling for the revocation of the defendant's ruling of approving the trademark registration of the Bank. The Bank was involved in the litigation as a third party. Beijing No.1 Intermediate People's Court accepted the administrative litigation on May 26, 2014, and the case was heard on October 13, 2014. On December 8, 2014, the Bank received the judgment rendered by Beijing No. 1 Intermediate People's Court, in which the Objector's claim was dismissed. Pursuant to applicable PRC laws and regulations, if the Objector fails to appeal within a statutory period, the abovementioned judgment will become effective and constitute the final judgment. If the Objector appeals within the statutory period, the abovementioned judgment will not become effective. If the Objector appeals within the statutory period and the above ruling by the Trademark Review and Adjudication Board is revoked by a final judgment rendered by the court, the Bank will not be able to obtain the exclusive right to use such logo as a trademark, and the right to use the text or images in the logo by the Bank (including the right to continue using "Shengjing Bank" as the name and logo in our business operations) may be affected. However, the risk that the Bank may not be able to continue to use its legally registered enterprise name due to the above is remote, as long as the Bank uses its enterprise name properly in its business operations. See "Risk Factors – Risks Relating to Our Business – We have not completed the trademark registration of our important logos in China. If we fail to register the trademark, our right to use the logo in business operations may be affected, and we may face infringement claims brought by third parties and may suffer losses as a result" in this prospectus.

Our PRC legal advisor, Tian Yuan Law Firm represented us in the abovementioned administrative litigation. According to Tian Yuan Law Firm, (i) the facts found by the Trademark Review and Adjudication Board in its ruling after reviewing the Objector's objection are clear and the ruling was made in accordance with due procedures. As a result, the risk that the Trademark Review and Adjudication Board might lose in the administrative litigation with the Objector is relatively low. In addition, according to the first instance judgment rendered by Beijing No. 1 Intermediate People's Court, the Objector's claim in the administrative litigation was dismissed by the trial court. If the Objector fails to appeal within a statutory period, the abovementioned judgment will become effective, the Bank's trademark application will be approved, and the Bank will be granted the relevant trademark registration certificate and enjoy the exclusive right to use such trademark. Even though the Objector appeals against the first instance judgment within the statutory period, given the facts found by the Trademark Review and Adjudication Board in its ruling after reviewing the Objector's objection are clear and the ruling was made in accordance with due procedures, the first instance judgment rendered by Beijing No. 1 Intermediate People's Court on the ruling of the Trademark Review and Adjudication Board is well founded in terms of both facts and law, thus the possibility that the Objector's claim could be upheld by the appeal court is relatively low; (ii) given that (a) the Trademark Review and Adjudication Board has ruled that the trademark the Bank applied for registration does not constitute a trademark with resemblance to the trademark "盛京圍場 (Shengjing Paddock)" registered by the Objector for use on same or similar products, (b) the structure, content, meaning and approved scope of usage of the two trademarks are different, (c) a special license is required for engaging in banking businesses and the business scope of the Bank is distinct from that of the Objector, so it is unlikely that the general public would be confused as to the sources of products and services, and the risk that the Bank's use of its trademark under application will infringe upon the registered trademark "盛京圍場 (Shengjing Paddock)" of the Objector or constitute unfair competition against the Objector is relatively low; (iii) given that the enterprise name "Shengjing Bank Co., Ltd. (盛京銀行股份有限公司)" is duly registered with the SAIC, the Bank's proper use of its own enterprise name is protected by the law. Since a special license is required for engaging in banking businesses and the business scope of the Bank is distinct from that of the Objector, it is unlikely that the general public would be confused as to the sources of products and services. In addition, pursuant to the Provisions of the Supreme People's Court on Certain Issues in Civil Disputes over the Conflict between Registration of Trademark or Enterprise Name with Preexisting Right (《最高人民法院關於審理註冊商標、企業名稱與在先權利衝突的民事糾紛案件若干問題的規定》), the risk that the Bank's use of its enterprise name will infringe upon the registered trademark "盛京圍場 (Shengjing Paddock)" of the Objector or constitute unfair competition against the Objector is relatively low.

As of the Latest Practicable Date, we had been involved in eight pending litigations each involving principal for over RMB10 million, with the aggregate principal of RMB569.65 million. We were the plaintiff in these litigations demanding repayment of loans. Our Directors do not expect such legal proceeding to have, individually or in the aggregate, a material adverse effect on our financial condition or results of operations.

As of the Latest Practicable Date, none of our Directors, Supervisors and senior management was involved in any material litigation, arbitration or administrative proceedings.

Regulatory Proceedings

We are subject to inspections and examinations by the relevant PRC regulatory authorities, including the PBOC, CBRC, NAO, SAFE, MOF, CIRC, SAIC, and SAT, as well as their respective local offices. These inspections and examinations have not discovered any significant risk or material non-compliance events in the Bank, but identified some deficiencies in business operation, risk management and internal control. Although these incidents did not have any material adverse effect on our business, financial condition and results of operations, we have implemented remedial measures to prevent recurrence of such incidents.

Administrative Penalties

During the Track Record Period and as of the Latest Practicable Date, we were not subject to any material fines or penalties due to violation of regulatory requirements during regulatory inspections and examinations.

Findings of Regulatory Examinations

Certain routine or ad hoc inspections and examinations conducted by the PRC regulatory authorities have revealed certain deficiencies in various areas of our business operations, risk management and internal control. With respect to each of the deficiencies disclosed in this prospectus, we timely submitted a remedial report to the relevant PRC regulatory authorities, setting forth the subject matter and the content of the rectification and proceeded to rectify the situation. As of the date of this prospectus, the relevant PRC regulatory authorities had no further comments on the remedial measures set forth in the remedial reports and implemented by us, and had not required us to implement any further remedial actions. The results of the principal examinations or inspections are summarized below.

CBRC

The relevant local bureaus of the CBRC carried out routine and occasional inspections on our Bank, including on-site inspections on our branches, sub-branches and other outlets. Based on these inspections, the relevant local bureaus of the CBRC issued relevant inspection reports, setting out their findings and recommendations.

During the Track Record Period and as of the Latest Practicable Date, the relevant local bureaus of the CBRC conducted inspections on our Bank. The major issues identified and the major guiding opinions given by the relevant bureaus of the CBRC in their reports and our primary rectification measures are set out below.

Major issues and major guiding opinions	Our primary rectification measures
In June 2012 and July 2013, the CBRC Liaoning Bureau carried out two on-site inspections on our information technology management, and mainly suggested that we may further improve the professionalism and regularity of our IT-related risk management, improve our business continuity program and accelerate the construction of our IT infrastructure for disaster recovery.	We submitted our rectification reports to the CBRC Liaoning Bureau in August 2012 and September 2013, respectively. We have been improving our systems and operational procedures for IT-related risk management, enhancing our expertise in IT-related risk management, enhancing the regularity of our IT construction planning, regularly carrying out the business continuity drills and the related risk assessment and audit work, established intra-city and off-site disaster recovery data centers, continued to improve the functions of the off-site disaster recovery data center, and improved the disaster emergency drill plan.

Major issues and major guiding opinions	Our primary rectification measures
In August 2013, the CBRC Liaoning Bureau carried out on-site inspection on our overall operations and risk status as of June 2012 and suggested that certain clauses of our regulations were barely implementable, one branch or two did not implement the compulsory vacation system, our internal control needs to be strengthened and some cases of irregularity were spotted in our credit-extension business, bill discounting business and counter operations.	We submitted our rectification report to the CBRC Liaoning Bureau in October 2013. We have fully optimized our internal control system, emphasized the compulsory vacation system for the key posts, enhanced the monitoring of the flow of credit capital and the examination of the information relating to bills, strictly implemented our internal control system and internal management system which contains the information system, and enhanced the monitoring and examination of our counter services.
From 2011 to 2014, the relevant local bureaus of the CBRC carried out several on-site inspections on our branches and sub-branches as well as our county banks, and suggested that some of our branches improve certain aspects of their business operation such as job division, post-lending management and counter services, and that some of our county banks rectify certain issues such as their loan extension procedures.	We submitted our rectification reports to the relevant local bureaus of the CBRC. We have enhanced our internal control efforts, aiming to ensure separation of loan extension and approval authority and that of the front, middle and back offices. Some specific problems identified in post-lending management and counter services have been rectified in a timely manner. Meanwhile, we strictly complied with the principle of "extending loans in small sums and to diversified industries" in the course of credit extension by our county banks, gradually collected the cross-border loans, gradually adjusted our credit extension structure and increased our lending to small- and micro-enterprises such as individual farmers and sole proprietors.

In addition to the above, the CBRC Liaoning Bureau carried out annual on-site and off-site inspections on our operations and issued regulatory opinions based on the results of inspection, which mainly set out the principal operating achievements, brought up the prominent issues and offered regulatory suggestions. In the annual regulatory suggestions for 2012 and 2013, the CBRC Liaoning Bureau acknowledged our achievements in strategic development planning as well as operation and management, and confirmed that all of our key regulatory indicators had turned out satisfactory, and offered regulatory suggestions on the issues that need to be monitored closely in each year. We have taken corresponding measures for improvement and enhancement, which are set out as follows:

Major issues and major guiding opinions	Our primary improvement measures
Strengthen management and control over credit risks, operational risks and liquidity risks, closely monitor risks in relation to the key industries, regions and customers, strengthen prevention and control of non-performing loans, and prevent risks in relation to inter-bank business. Strengthen capital management, prudently conduct external investments, and actively manage and control industry concentration risks. Certain defects were identified in the basic work including internal control; corporate governance needs to be further improved, talents retention and incentive and assessment mechanism need to be further strengthened. Continuously improve IT-related risk management, including enhancing security of information systems and the management of business continuity as well as promoting data standardization.	We have taken the following improvement measures: (i) promoting financial innovation and strategic transformation, formulating prudent profit distribution policies, developing diversified capital replenishment channels including issuance of Tier 2 capital instruments, and establishing risk control mechanism; (ii) improving the relevance and flexibility of credit extension, strengthening risk management and control in the key areas, such as the real estate and steel industry, strengthening dynamic post-lending monitoring and risk warning, and strengthening market risk monitoring; (iii) further improving the performance-linked remuneration management system and enhancing risk and internal control assessment; (iv) improving the regulation system, monitoring system, reporting system and management system for liquidity risks, strengthening the credit liquidity management and assessment; (v) standardizing the non-credit asset business and strengthening the management, monitoring and risk prevention of counter services; (vi) fostering a culture of compliance and strengthening the relevant training, strengthening the functions of the internal audit and the compliance departments, strengthening supervision and evaluation on the internal control of branches; (vii) exercising management over investment scale and entry of asset investment business, prudently selecting investment products, strengthening control over authority of asset investment business, strengthening risk management measures for asset investment business, enhancing quota risk management and adopting effective risk diversification strategies; (viii) establishing and improving the staff management system, continuously enhancing the quality and capacity of our workforce and optimizing the relevant incentive mechanisms; (ix) completing the identification, assessment audit procedures for IT-related risks, developing IT business continuity plans covering a number of important information technology systems and furthering the construction of disaster recovery system.

As of the Latest Practicable Date, the relevant local bureaus of the CBRC had no further comments on the implementation of their regulatory opinions by us, and we had not received any notice requiring us to take further measures or imposing any penalties on us. Based on the above inspection findings of the relevant local bureaus of the CBRC, we believe that we do not have any material deficiencies in our business operations, internal audit, internal control or risk management, and that such findings have not had a material adverse effect on our business, financial condition or results of operations.

PBOC

The relevant local branches of the PBOC carried out routine and occasional inspections on our Bank from time to time, including on-site inspections on our branches and sub-branches. Based on the inspections, the relevant local branches of the PBOC issued relevant inspection reports, setting out their findings and recommendations.

During the Track Record Period and as of the Latest Practicable Date, the relevant local branches of the PBOC conducted several inspections on our Bank. The major issues identified and the major guiding opinions given by the relevant local branches of the PBOC in their reports and our primary rectifications are set out below.

Major issues and major guiding opinions	Our primary rectification measures
In March 2011, in respect of our settlement business in 2010, the PBOC Shenyang Branch noted certain incidents where refund applications submitted to our large payment system were not responded to in a timely manner.	We submitted our rectification report to the PBOC Shenyang Branch in April 2011. We strictly implemented the time limit requirements for our payment system, strengthened the training for and the supervision and inspection of our business operations, and imposed penalties on the employees who failed to respond to refund applications in a timely manner.
In June 2011, the PBOC Yingkou Sub-branch carried out inspections on the financial statistics work of our Yingkou branch and noted that the branch has not maintained proper statistic scoping in certain cases.	We timely revised our statistic scoping and strengthened related staff training so as to ensure the accuracy and completion of the data to be presented going forward.

Major issues and major guiding opinions	Our primary rectification measures
From July to August 2012, the PBOC Yingkou Sub-branch carried out inspections on the settlement business of our Yingkou branch and noted from the inspected samples that there existed several issues relating to the management of certain accounts, including (i) certain corporate customers had not completed annual examinations on their business licenses, (ii) the organization code certificates of certain corporate customers had expired and (iii) certain accounts opened with the branch were not correctly categorized.	We submitted our rectification report to the PBOC Yingkou Sub-branch in August 2012. We imposed penalties on the relevant responsible personnel, strengthened various internal rules regarding the settlement business of our branches and used the training on and examination of the settlement business as one of the important indicators for hiring and performance review of our branch employees.
In October 2012, the anti-money laundering inspection team of the PBOC Yingkou Sub-branch carried out on-site inspections on the anti-money laundering work of our Yingkou branch, and the team stated that we need to strengthen our capability to examine doubtful transactions.	We submitted our rectification report to the PBOC Yingkou Sub-branch in November 2012. We clarified the responsibilities of the anti-money laundering steering group, further improved the internal control system of anti-money laundering based on the actual business operations, and enhanced the capabilities of our anti-money laundering personnel through training.
In March 2013, the PBOC Huludao Sub-branch carried out inspections on the financial statistics work of our Huludao branch and noted several incidents of statistical errors relating to expenditure, classification of loans by industry and classification of deposit for enterprises and public institutions.	We submitted our rectification report to the PBOC Huludao Sub-branch in April 2013. We made timely corrections on the identified issues, enhanced the management of daily statistics work, improved the inspection and review system, and ensured the consistency and accuracy of the data submitted by the staff by way of enhancing employee training on the financial statistics system.

Major issues and major guiding opinions	Our primary rectification measures
In April and May 2013, the PBOC Shenyang Branch carried out inspections on our cross-border RMB settlement business and noted that the proportion of cross-border RMB settlement business in our international settlement business and the regional contribution of our cross-border RMB settlement business were below average in the area.	We submitted our rectification report to the PBOC Shenyang Branch in September 2013. We simplified the process of our cross-border RMB settlement business, broadened the RMB financing channels for enterprises, strengthened our marketing efforts on key clients of the cross-border RMB settlement business, reset the examination indicators of the cross-border RMB settlement business, further mobilized our employees to promote the cross-border RMB settlement business, and included training on cross-border RMB settlement business as one of our regular training programs.
In June 2013, the PBOC Shenyang Branch carried out on-site inspections on our anti-money laundering work and suggested that we enhance the promotion, supervision and examination, system support and daily work of anti-money laundering work.	We submitted our rectification report to the PBOC Shenyang Branch in June 2013. We amended and improved our anti-money laundering management system, enhanced the implementation and examination of the anti-money laundering internal control system, upgraded the anti-money laundering business system and improved the performance review system and the reward and punishment system regarding anti-money laundering.
In August 2013, the PBOC Shenyang Branch carried out inspections on our Puhexincheng Treasury Sub-branch and noted that one case of fund transfer had not been examined and approved.	We submitted our rectification report to the PBOC Shenyang Branch in December 2013. We had made corrections on the identified issues and handled the fund transfer in compliance with the relevant regulations of the treasury. We had also enhanced job training and supervision and review in order to regulate operational practices and prevent business risks.

Major issues and major guiding opinions	Our primary rectification measures
In November 2013, the PBOC Panjin Sub-branch carried out inspections on the protection of personal financial information by our Panjin branch and suggested that we improve our information security, preservation and management of basic customer information and management on personal credit check.	We submitted our rectification report to the PBOC Panjin Sub-branch in December 2013. We made corrections on the identified issues in a timely manner and regulated the relevant systems and business procedures concerning the registration of customer information, rating of customer risk profile and personal credit check.

As of the Latest Practicable Date, the relevant local branches of the PBOC had no further comments on the implementation of their regulatory opinions by us, and we had not received any notice requiring us to take further measures or imposing any penalties on us. Based on the above inspection findings of the relevant local branches of the PBOC, we believe that we do not have any material deficiencies in our business operations, internal audit or risk management, and that such findings did not have a material adverse effect on our business, financial condition or results of operations.

SAFE

The relevant local branches of the SAFE conducted inspections on our foreign exchange business, and issued inspection opinions, setting out their findings and recommendations.

In August 2011, the SAFE Liaoning Bureau conducted on-site inspections on our reporting of the statistics of the PRC's balance of payment and our statistics of inter-bank settlements of foreign exchange, and noted that there were (i) data errors in our reporting of the statistics of the balance of payment and transaction classification errors and (ii) repeated reporting in our statistics of inter-bank settlements of foreign exchange. We submitted our rectification report to the SAFE Liaoning Bureau in November 2011. We corrected all incorrectly reported data, strengthened the inspection and supervision on our sub-branches by our head office, enhanced professional trainings on the PRC's balance of payment and improved the functions of our data reporting systems.

As of the Latest Practicable Date, the SAFE Liaoning Bureau had no further comments on the implementation of their regulatory opinions by us, and we did not receive any notice requiring us to take further measures or imposing any penalties on us. Based on the above inspection findings of the SAFE Liaoning Bureau, we believe that we do not have any material deficiencies in our foreign exchange business or risk management, and that such findings did not have a material adverse effect on our business, financial condition or results of operations.

Compliance with Core Indicators

We are required to comply with various ratios as provided in the Core Indicators (Provisional) issued by the CBRC. For details regarding our compliance with core indicators during the Track Record Period, see "Supervision and Regulation – Other Operational and Risk Management Ratios". During the Track Record Period, we had not been subject to any penalties as a result of non-compliance with any core indicator during regulatory inspections and examinations.

Anti-Money Laundering

No material money laundering incidents had been identified by the Bank or reported to the senior management during the Track Record Period. For the details of our anti-money laundering measures, please refer to "Risk Management – Legal and Compliance Risk Management – Anti-Money Laundering Management" in this prospectus.

Non-compliance Incidents

We have, from time to time, examined non-compliance incidents committed by our employees, customers and other third parties, which include violation of our internal rules regarding credit approval process, teller operation procedures and accounting matters. During the Track Record Period, none of our employees has been found to have committed a crime or any other material non-compliance matter in respect of our operation. We believe that there is no non-compliance matter which, individually or in the aggregate, would have a material adverse effect on our business, financial condition and results of operations. None of our Directors and senior management members had been involved in any non-compliance matters as stated above.

The Directors are of the view that the findings of the regulatory authorities and the non-compliance incidents show no material deficiencies in our business operations, internal audit, internal control or risk management.

OVERVIEW

Our Bank is primarily exposed to credit risk, market risk, liquidity risk, operational risk, information technology risk, reputational risk and legal and compliance risk. We adopt a prudent risk management strategy and seek to establish a comprehensive risk management system that will be in line with our development strategies, the scale and scope of our business operations and our risk exposures. We also adopt the principle of preventing ultimate loss of assets, and deepen our bank-wide risk management that covers all staff members and procedures, so as to strike a balance between our risk and return.

RISK MANAGEMENT OBJECTIVES

Our risk management objectives are set out below:

- implementing a prudent risk management strategy, implementing comprehensive and effective risk management policies, and proactively managing various risks, so that we can better manage our risk exposure based on business development;

- establishing a risk management framework with distinctive hierarchy, clearly defined responsibilities and well-disciplined collaboration, developing a rational and highly efficient risk control procedure, and ensuring the effective implementation of risk management policies;

- implementing comprehensive and refined risk management, and developing and applying advanced risk management techniques and methodologies to improve our capabilities of risk identification, measurement, monitoring, alert and management; and

- cultivating and adopting a risk management culture of integrity, diligence and legal compliance throughout the Bank.

RISK MANAGEMENT INITIATIVES

In recent years, we have continuously improved our overall risk management through various initiatives, including the following:

- carrying out prudent and sound risk management strategies, including:

  - proactively studying changes in macroeconomic situations and policies, carrying out ongoing risk analysis and strategic research, and formulating a development plan for medium- and long-term risk management;

  - actively managing risks according to the external environment and the Bank's capability, timely adjusting risk prevention and control strategies, as well as improving our abilities to foresee and proactively manage risks;

  - balancing risk and return and focusing on improving asset quality in order to realize appropriate resources allocation; and

  - making asset-related business the core area of risk management and adhering to the principle of accepting only effective assets as collateral to prevent ultimate loss of assets.

- optimizing our risk management framework and developing a long-term risk management mechanism, including:

  - establishing a corporate governance framework centering on the shareholders' general meetings, the Board, the Board of Supervisors and the senior management, and improving every aspect of our risk management system;

  - forming our "Three Lines of Defense for Risk Management" consisting of business departments, the Risk Control Center of the head office and the independent Audit Department, and developing a governance framework characterized by delineated powers and responsibilities as well as effective checks and balances;

  - creating the position of Chief Risk Officer who shall be responsible for the implementation of the Bank's overall risk management strategies, formulation of risk management policies, systems and procedures, setting up a comprehensive risk management framework, and promoting and nurturing risk management culture;

  - making the Risk Control Center of the head office in charge of the overall management of various risks, formulating risk management policies and evaluating the risk management functions of each business department; and

  - implementing differentiated authorization management by integrating the risk management capabilities of each of the departments, branches and sub-branches in line with such circumstances as operation outside Liaoning Province, business development and product and service innovation.

- improving and optimizing the risk management procedure and mechanism, including:

  - covering various risks such as credit risk, liquidity risk, market risk and operational risk in our unified risk management system in order to implement comprehensive risk management;

    - enhancing risk appetite management, adhering to a prudent level of risk appetite and the goal of preventing ultimate loss of assets, imposing risk limits, consistently implementing enhanced risk appetite management policies and measures throughout the Bank, so as to achieve sustainable development;

    - expanding the scope of identification, measurement, monitoring and control of market risk to cover all items on the balance sheet as well as certain off-balance sheet items;

    - establishing a specialized system for liquidity risk management, enhancing the liquidity risk alert mechanism and reporting system, and conducting liquidity risk stress tests on a regular basis;

    - improving our incentive and restraint mechanism for risk management, pioneering the industry in establishing a risk accountability system and a professional skill appraisal system; and

    - adopting an employee accountability system for asset management, and strengthening our employees' awareness of risk accountability.

- establishing a credit approval procedure with delineated powers and responsibilities, including:

    - establishing an organizational structure of credit management primarily led by the Credit Review Committee and Risk Management Committee, identifying the responsibility of lending, and adhering to the principles of separation of credit approval and credit extension as well as tiered credit approval;

    - establishing the loan classification system and work standards for such aspects as pre-lending investigation, loan examination and post-lending management of all types of credit businesses;

    - strengthening risk management of certain types of high-risk loans with a view to preventing systematic risks, including loans to government financing vehicles, real estate developers and industries with excess production capacity; and

    - formulating lending strategies, effectively controlling credit risk and achieving stable growth of returns on assets in line with the macroeconomic policies of the State and by taking into account factors such as industry, region, customers and others.

- enhancing the establishment of the information technology system and introducing advanced risk management tools, including:

  - proactively implementing relevant requirements of Basel II and Basel III and developing risk measurement tools;

  - adopting risk management models and tools such as the innovative capital management system developed by China Foreign Exchange Trade System, sensitivity analysis, scenario analysis and VaR analysis to strengthen the risk quantification capability;

  - continuing to optimize an integrated business system and credit risk management system to implement effective risk management of our operation, including the internal rating system for our customers, supporting credit approval process and loan classification and post-lending management;

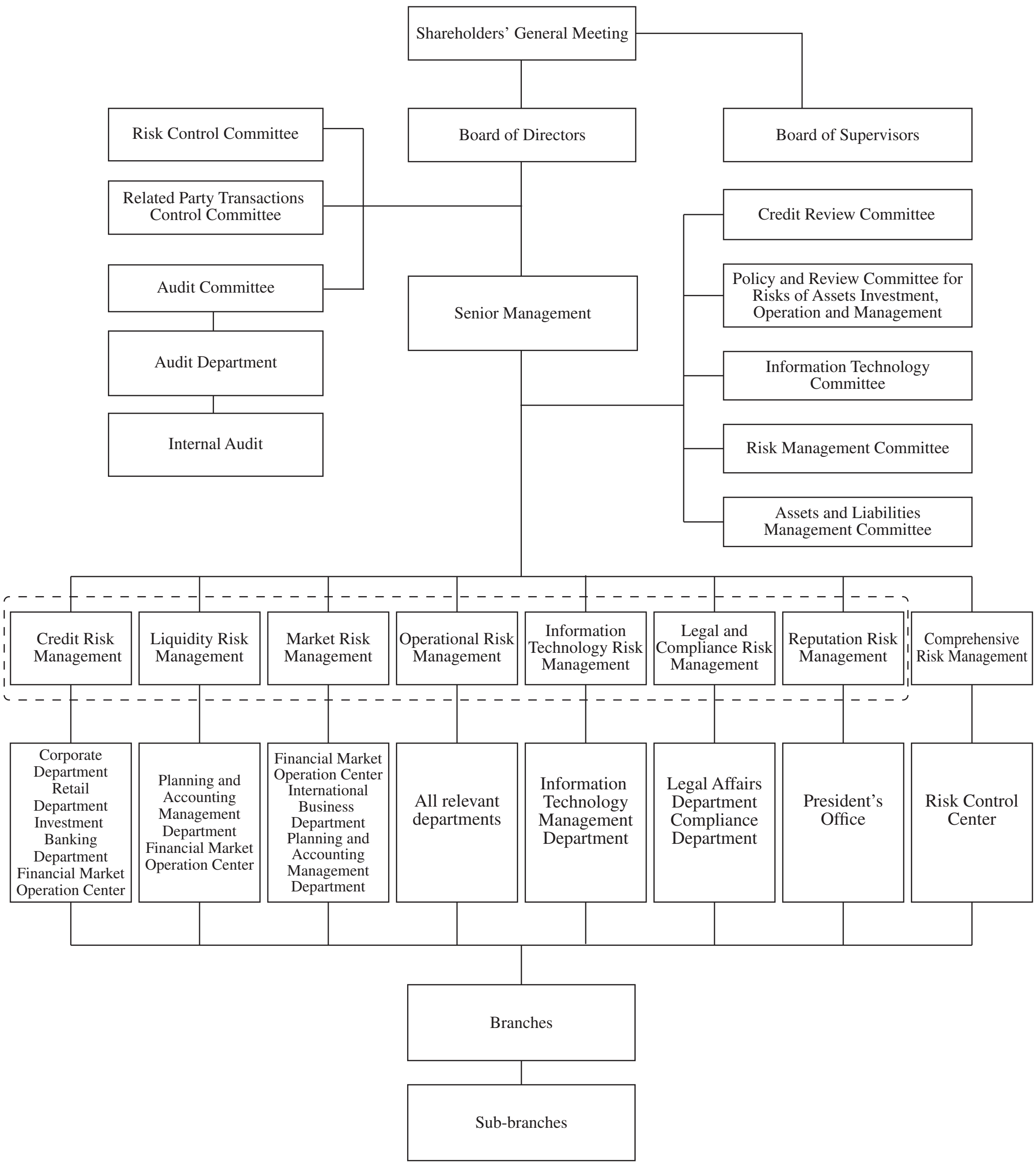
  - establishing a bank-wide internal audit system operated and maintained by the data center, and strengthening authorization management and internal audit of personnel responsible for operation and maintenance;

  - establishing an off-site pre-warning system and a monitoring system to monitor, analyze and review business development, transaction processing and financial accounting of our branches and sub-branches after risk events occurred; and

  - formulating contingency plans for the information technology application system, building disaster recovery centers and enhancing system back-up functions.

RISK MANAGEMENT FRAMEWORK

As of the date of this prospectus, our organizational structure of risk management is as follows:



Note: Each business department shall manage the risks associated with its business and carry out relevant risk policies. The Risk Control Center of the head office shall be responsible for the overall management of the risks our Bank faces, formulating risk policies and assessing the risk management works of each business department. The Audit Department, as an independent internal audit department, supervises and assesses our risk management system.

Board and Board Committees

The Board is the highest decision-making authority within our Bank in terms of risk management and is responsible for determining our overall risk appetite and risk tolerance level; approving our strategies, policies and procedures regarding risk management; advising the senior management to adopt necessary risk precaution measures; and monitoring and evaluating the comprehensiveness and effectiveness of risk management. The Board performs part of its risk management functions through entities such as the Risk Control Committee, the Audit Committee and the Related Party Transactions Control Committee.

Risk Control Committee

The Risk Control Committee assists the Board in examining our risk management strategies and policies. The Risk Control Committee, based on our overall strategies of risk management, also approves and amends our risk management policies, regularly reviews the risk reports submitted by the senior management, fully comprehends the overall situation of risk management of our Bank and the effectiveness of various measures, and makes recommendations to the Board.

Audit Committee

The Audit Committee is responsible for reviewing our financial reports, annual reports and other financial information, advising the Board in relation to the engagement of external auditors and supervising the work of external audit firms, reviewing their reports, supervising and assessing our internal audit work and internal control system, advising the senior management to formulate and implement anti-money laundering policies as well as overseeing the anti-money laundering work.

Related Party Transactions Control Committee

The Related Party Transactions Control Committee is primarily responsible for identifying related parties, reviewing material related transactions and reporting to the Board for approval, assessing the status of our related transactions, examining the status of our annual related transactions and the control plan of related transactions within the terms of reference of the Board, and regularly advising the senior management on related transaction management.

For details of the functions and powers of our Board, as well as the responsibilities and compositions of the Risk Control Committee, the Audit Committee and the Related Party Transactions Control Committee, see "Directors, Supervisors and Senior Management – Committees under the Board of Directors" and Appendix V – "Summary of Articles of Association" to this prospectus.

Senior Management and Special Committees under Senior Management

Senior management is the highest execution level in our risk management structure. Our President, with assistance from other senior management officers (including the Chief Risk Officer), is responsible for overall risk management at the senior management level and directly reports to the Board. Based on the risk management strategies determined by the Board, the senior management keeps abreast of the risk exposure and status of risk management, which enables our Bank to have sufficient resources for formulating and implementing risk management policies and systems, as well as supervising, identifying and controlling the risks that various businesses are exposed to. Under our senior management, we established the Risk Management Committee, the Assets and Liabilities Management Committee, the Credit Review Committee, the Policy and Review Committee for Risks of Assets Investment, Operation and Management and the Information Technology Committee. Each committee generally comprises our President, Vice Presidents for related functions and heads of related departments, and is fully responsible for organizing, coordinating and inspecting our risk management.

Risk Management Committee

The Risk Management Committee is responsible for reviewing our strategies, policies, systems and procedures of risk management, and organizing and supervising their implementation, coordinating our risk management and risk alert work, coordinating and supervising the execution and implementation of risk-preventive measures, and reviewing reports on our overall exposure to risks and material risk management and handling significant risk events. There is an expert review committee under the Risk Management Committee responsible for considering significant and complex projects, and putting forward risk-preventive measures.

Assets and Liabilities Management Committee

The Assets and Liabilities Management Committee is responsible for (i) reviewing business development plans of the Bank; (ii) managing the assets and liabilities ratios, and reviewing operation reports on the Bank's assets and liabilities; (iii) managing the liquidity risk and market risk of the Bank; (iv) reviewing and approving product development plans for our strategic intermediary business and approving major projects; and (v) reviewing inter-bank credit extension policies, rules and annual credit extension plans.

Credit Review Committee

The Credit Review Committee is responsible for our credit risk management and the assessment and consideration of our credit policies and management systems and supervises their implementation. Other than those credit businesses within the authorizations of approval of branches or sub-branches, the Credit Review Committee approves the other credit businesses in accordance with relevant rules.

Policy and Review Committee for Risks of Asset Investment, Operation and Management

The Policy and Review Committee for Risks of Asset Investment, Operation and Management is responsible for the formulation of plans and proposals for our asset investment and operation business, reviewing operating activities such as external investment not conducted in the ordinary course of business and acquisition of large-scale assets; supervising and managing the operation of our asset investment and operation business, regularly considering our reports on work progress and conducting appraisal and evaluation. It also takes charge of studying and solving various types of unexpected issues in the investment business, and providing specific suggestions and advice accordingly.

Information Technology Management Committee

The Information Technology Management Committee is responsible for the consideration of strategies and plans for technological development of the Bank, the implementation of information security policies, as well as the supervision and implementation of technological development plans and investment budgets of the Bank, and reports to the senior management.

Risk Management Departments

Risk Management Departments at Head Office

The head office has established the Risk Control Center, which is dedicated to the Bank's risk management. Each business department is responsible for risk management within its respective scope of business and submitting their risk analysis reports to the Risk Control Center on a regular basis. The functions of key risk management departments at our head office are as follows:

- *Risk Control Center*. The Risk Control Center is responsible for formulating risk management policies and risk control plans, and developing and determining various risk assessment standards, detection tools, measurement models and risk control processes of various types of risks. The Risk Control Center also organizes and coordinates the implementation of risk prevention and control measures and inspects, supervises, examines and evaluates their effectiveness. It also revises relevant risk prevention and control measures according to regulatory requirements, internal audit findings by the Audit Department and practical needs for risk management.

- *Corporate Department*. The Corporate Department is responsible for formulating our credit policies, credit management systems and operational procedures, coordinating the implementation of pre-loan investigation, managing loan business throughout the Bank, carrying out assessment of customer credit rating, as well as monitoring and classifying the quality of credit assets.

- *Retail Department.* The Retail Department is responsible for formulating the policies and processes of risk management associated with retail banking business other than personal loan business, including the credit card business, and supervising and evaluating the execution of policies and processes. The Bank Card Center under the Retail Department is the specialized entity for monitoring risks in relation to the credit card business throughout the Bank.

- *Investment Banking Department.* The Investment Banking Department is responsible for formulating and implementing rules and policies, operational processes and risk management initiatives for our proprietary investment business. It is also responsible for the evaluation of counterparties before we take on a new client for and the review of investment banking business, and the supervision of follow-up management of the investment banking business.

- *Financial Market Operation Center.* The Financial Market Operation Center is responsible for formulating various rules and policies and operational procedures for our financial market business. Based on the unified risk appetite determined by our head office and subject to the trading authority and risk exposure limits, it undertakes market risk management of the financial market business.

- *International Business Department.* The International Business Department is responsible for formulating rules and policies and operational procedures for our international business, implementing centralized management of risks associated with international trade and settlement business and exchange rates throughout the Bank, developing regular risk monitoring and analysis mechanisms, and adopting specific risk prevention and control measures, thus, ensuring the compliance of international business and sound operation throughout the Bank.

- *Planning and Accounting Management Department.* The Planning and Accounting Management Department is responsible for formulating and implementing our liquidity risk and market risk management policies and systems, managing our assets and liabilities structure on a daily basis, monitoring our liquidity risks and market risks, and proposing risk control measures.

- *Audit Department.* The Audit Department is subject to the supervision and evaluation of the Audit Committee. In accordance with the internal audit work plan approved by the Audit Committee, the Audit Department conducts internal audits across our businesses, departments and entities, supervises and appraises the operation of our risk management system and the implementation of various risk management policies, and is responsible for reporting audit results to the Audit Committee and informing the same to the senior management.

- *Legal Affairs Department.* The Legal Affairs Department is fully responsible for managing our legal affairs, coordinating and handling the loan collection and disposal work of material litigations, and investigating and assessing legal risks. In addition, the Legal Affairs Department is also responsible for the collection and disposal of non-performing assets and collateral.

- *Compliance Department.* The Compliance Department is responsible for identifying, monitoring and reporting compliance risk, developing and executing compliance management plans and establishing and cultivating compliance culture. It also manages our rules and policies, reviews new products, new business, rules and policies as well as contracts, and evaluates and reviews the compliance work.

- *Information Technology Department.* The Information Technology Department is responsible for managing risks in the course of our information technology operation and information system development and testing, which ensures information security and the ongoing and stable operation of the information system of our Bank, and assisting the development of various information risk management systems.

- *President's Office.* The President's Office is responsible for reputational risk management, developing reputational risk management framework, organizing the formulation of reputational risk management structure, and supervising, identifying and handling any reputational risks.

In addition, other departments of the Bank also carry out risk management policies and procedures, and perform their own risk management responsibilities within respective business domains.

Risk Management Framework of Our Branches and Sub-branches

We have established a risk management system which emphasizes "centralized leadership, vertical management and tiered accountability". We have also established risk control departments or risk control posts at branch level, which are responsible for implementing risk management policies formulated by our head office, controlling, investigating and alerting credit risk, liquidity risk, market risk, operational risk and other risks of our various businesses, and supervising and assessing the risk management of sub-branches under its management. The risk control department at each of our branches is required to report major risk events to the management staff at the branch level, as well as the functional departments responsible for such risk management at our head office, which will then put forward the targeted measures or proposed improvements to our branches, and supervise and evaluate the rectification work carried out by our branches.

CREDIT RISK MANAGEMENT

Credit risk refers to the risk that customers or counterparties are unable or unwilling to perform their obligations to the Bank. Our credit risk mainly comes from the corporate loan business, personal loan business and treasury business.

We rely on the "Three Lines of Defense for Risk Management", which consists of the business departments, the Risk Control Center in the headquarters and the independent Audit Department, to implement a risk accountability system for an employee during the term of employment so as to manage and control risks throughout the entire credit business and treasury operation segment. Business departments, as the first line of defense, shall screen and rate customers carefully and ensure successful implementation of the risk management measures under the principle of preventing ultimate loss of assets; The Risk Control Center, being our second line of defense, which is independent from the business departments, is responsible for establishing the risk identification, monitoring, measurement, early warning and reporting processes and standards, and consolidating our risk management measures pursuant to actual needs. The Audit Department, as the third line of defense, shall oversee the effectiveness and adequacy of the risk management measures.

The Risk Control Center in the head office has, in cooperation with the business departments, developed a set of regular procedures and standards for credit business, and has been regularly reviewing and revising the credit policies and regulations in consideration of the business development objectives and capital management needs. In addition, the Bank adopted differentiated credit risk management strategies for different borrowers through a differentiated authorization system, based on the differences in region, industry, customer and product type, so as to cope with the evolving business environment.

Credit Risk Management for Corporate Banking

With regard to credit risks associated with corporate banking business, we have established a standardized credit approval process and a risk accountability mechanism, and have adopted the risk management principle of accepting only effective assets as our loan security to prevent ultimate loss of assets. Meanwhile, we proactively study macroeconomic landscape, national policies and market changes and adopt a flexible lending strategy to proactively identify risks and better manage each specific risk effectively.

Credit Application

As the first step of our corporate credit approval process, the loan officers of each of our sub-branches will meet with borrowers applying for loans or proactively approach potential customers. We typically solicit potential borrowers that we believe to be creditworthy, and our credit evaluation of borrowers will be partly based on the economic conditions and prospects of the industries or areas in which the borrowers are situated.

Credit Investigation

As part of our credit approval process, we conduct a credit investigation on the borrowers by analyzing the credit risk of the loan applications submitted by the borrowers. In order to assure the effectiveness of credit investigation on credit risk control and to prevent moral hazard and operational risk from our loan officers, we have adopted a "two-person investigation" mechanism by which the main loan officer and the assistant loan officer will separately conduct their credit investigations on the borrower and assume joint responsibility for the objectiveness, accuracy and completeness of the loan information and the investigation report.

We focus on the following factors when we conduct risk analysis during our credit investigation:

- the risk associated with the industry in which a borrower operates;
- the financial condition of the borrower, such as cash flows, income, total assets and effective net assets (assets that can be used by the borrower as a practical source of loan repayment);
- the quality of the management staff of the borrower and the competitiveness of, and potential for the further development of the borrower's business;
- the intended use of the loan proceeds;
- the credit history of the borrower and its willingness to repay the loan; and
- the ability of guarantors to repay for borrowers and/or the value of the collateral.

Credit Rating

The credit rating of a corporate borrower is an important factor during the process of credit investigation. Our credit rating system considers both internal rating and external rating. We give more weight to internal rating, but we will also refer to external rating information provided by third-party professional evaluation agencies when it is necessary. The credit rating of a corporate borrower is reviewed by the loan approval officer. The loan approval officer reviews the corporate borrower's data in the credit management system to confirm its rating. In addition, we have designated officers for credit ratings of corporate borrowers at each branch and sub-branch, who will carry out real-time management and regular inspections of credit rating-related work. Our Risk Control Center also conducts bank-wide review of the ratings of our customers. We generally classify the credit ratings into nine levels, including AAA, AA and A, based on the likelihood of default by the relevant corporate borrower, with the level AAA being the highest rating. We adopt a comprehensive scoring system when we rate corporate borrowers, and consider both quantitative and qualitative indicators. Quantitative indicators include the solvency, operation capability and profitability while qualitative indicators include the quality of management, operational capabilities and credit status of the borrower. In principle, we only extend loans to companies with credit ratings of A or above.

Subsequent to the disbursement of loan proceeds, we will reassess the credit ratings of all borrowers that have credit balances with the Bank at least once every year. We will adjust the credit rating of a borrower if there are any significant changes in the financial condition or business operations of the borrowers, or if there are any other events that may materially and adversely affect its ability to repay the loan. When certain conditions are met, we may request additional guarantees and/or collateral or early repayment from the borrower based on the borrower's conditions.

Evaluation of Collateral and Guarantees

Our corporate loans are mainly secured by collateral, pledges or guarantees. See "Description of Our Assets and Liabilities – Assets – Loans and Advances to Customers – Loans to customers by collateral". For any loans that are secured by a mortgage or a pledge, we choose collateral based on the principles of "being easy to be controlled, evaluated, liquidated, managed and division", and determine the value of collateral with reference to a third-party evaluation report. We have formulated different loan-to-value ratios, which are generally 50% or less, after taking into consideration factors, such as different types of collateral, liquidity, market value and the borrower's ability to repay.

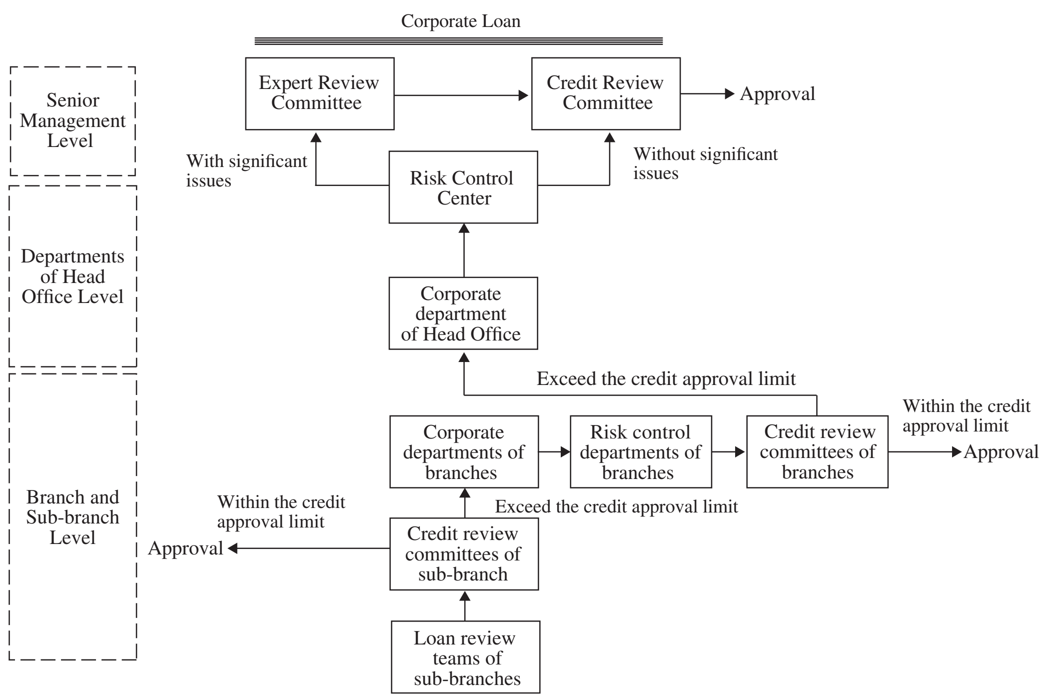
In respect of guaranteed loans, we conduct detailed analyses on the guarantors' operations, financial condition, credit quality and ability to repay for borrowers, in order to determine the appropriate guaranteed amount.

Credit Review and Approval

We have implemented a multilayered credit extension and authorization system with regard to corporate loans. We implemented differentiated credit extension and authorization management in branches based on our head office's comprehensive consideration of the regional economic environment, operational conditions, the development of the credit extension business and the risk control ability of each branch. Under this management, the head office would determine for each branch the overall credit limit and the industries eligible for credit extension. Each branch would then implement differentiated credit extension and authorization in each of its governing sub-branches according to our head office's authorization standards. We conduct an annual review of different authorization standards for each branch or sub-branch, and adjust the authorization limits dynamically.

In respect of credit applications within the authorization of the sub-branches, after conducting the "two-person investigation" by each sub-branch, the loan review team of the sub-branch's marketing department will carry out the review process and the ultimate approval decisions will be made by the credit review committee of the sub-branch. In respect of the credit applications beyond the authorization of the sub-branches, the loan review team and the credit review committee will submit their opinions to the branches. The corporate departments of the branches will then conduct a preliminary review of the credit applications submitted by the sub-branches, and the risk control department or risk management executive of the branches will reexamine the applications and submit the results to the credit review committees of the branches. The credit review committees of the branches will review and approve credit applications within their authorization, and submit those beyond their authorization to the Corporate Department of our head office. Upon preliminary review, the Corporate Department of our head office will issue their review opinions and submit them to the Risk Control Center of our head office for risk evaluation. The final review and approval process will be conducted by the Credit Review Committee of our head office. If the Risk Control Center believes there are some significant issues arising from the loan applications during the risk evaluation process, it will submit the applications to the Expert Review Committee of the Risk Management Committee for their consideration and approval before submitting the applications to the Credit Review Committee for approval.

The diagram below sets forth our general procedures for the review and approval of corporate loans as of the date of this prospectus:



According to the relevant regulatory requirements and our credit review policy, the Bank will first conduct a compliance review on the credit applications, and then a detailed analysis of the hidden risks. During the credit review process, we focus on the following areas:

- the rational use of loans;
- the borrower's operating capacity and solvency;
- potential risks in the loans and the feasibility of remedies;
- the guarantor's qualifications and compensatory ability; and
- the value and liquidity of the collateral.

In addition, we have formulated relevant credit guidelines for borrower industries with relatively higher risks. See the section entitled "– Portfolio Management and Credit Guidelines".

Loan Disbursement

We established a specialized unit for loan disbursement review in each branch and sub-branch. The unit for loan disbursement review is responsible for the review of the completeness, legality and validity of the loan agreements and other relevant documents, so as to ensure that all documents are effectively authorized and the relevant information is properly provided. The loan disbursement review personnel will only disburse the loans when the loan disbursement conditions are fulfilled.

Post-lending Management

Post-lending Inspections

We conduct post-lending inspections with respect to corporate loans regularly, and reduce the default risk by taking corrective measures in a timely way. The post-lending inspections are mainly carried out by all sub-branches, while the head office and the branches will verify the results of the post-lending inspections by the sub-branches. The frequency of post-lending inspections depends on the loan's classification and the specific instructions from our head office. The first post-lending inspection will start within 15 days of loan disbursement. In addition, the Bank will conduct quarterly inspections and special inspections when necessary.

Our post-lending inspections focus on monitoring the use of loan proceeds and analyzing the financial condition of the borrowers and assessing the repayment capability of the borrowers and changes in the value of collateral. As for the guarantors, we will monitor their reputation and financial condition or other factors that may affect their ability to perform their guarantee obligations. In addition, if corporate borrowers apply the loan proceeds to proposed transactions at their own discretion, all branches and sub-branches will require the borrowers to at least report the use of loan proceeds quarterly in accordance with the loan contracts. All branches and sub-branches will also check if the use of loan proceeds is in compliance with the agreed purpose stated in the contracts by account analysis, examination of evidence and on-site investigation. We will adjust the scope and focus of post-lending inspections based on the types of loans and risk levels.

Risk Monitoring and Alert

We actively monitor, identify and control potential or actual risks which may damage our asset quality. The Risk Control Center regularly gathers and analyzes all risk information of the Bank to assess the overall risk level. All branches and sub-branches are responsible for gathering risk information on the borrowers and the guarantors from several sources, including from the borrowers and the guarantors themselves, regulatory authorities, industry reports, research and analysis reports, consulting companies and media. We have formulated specialized operational procedures for credit risk alert under which the credit management personnel of each level will alert upward according to the required procedures and methods in a timely manner in case of situations that will result or may result in a loss of credit assets, and carry out remedial measures according to the risk control plans.

Loan Classification

As required by the CBRC, we classify our loans into five categories, namely pass, special mention, substandard, doubtful and loss, in accordance with the level of risk of the outstanding loans. Under this classification, loans classified as substandard, doubtful and loss are non-performing loans. We classify our outstanding loans and submit the loan classification data to the PBOC and the CBRC regularly. See "Description of Our Assets and Liabilities – Assets – Asset Quality of Our Loan Portfolio – Loan Classification".

For the specific requirements of the CBRC regarding loan classification, see the section entitled "Supervision and Regulation – Loan Classification, Allowances and Write-offs – Loan Classification".

Our Risk Management Committee is responsible for formulating our policies and systems with respect to loan classification, and is in charge of the classification of loans of the entire Bank. The loan risk management team of the Risk Management Committee is responsible for the implementation of loan classification. Specifically, the loan risk management team liaises with branches and sub-branches to carry out preliminary loan classification based on the information from the borrowers, analyses of the borrowers' repayment records, repayment willingness, profitability of the loan and financing projects and the status of the guarantees. The Risk Management Committee will reexamine and verify the results of the preliminary loan classification conducted by the loan risk management team. We will at least review our corporate loans quarterly and conduct reclassification based on the information obtained from post-lending inspections.

Management and Collection of Non-performing Loans

We currently classify loans as substandard or below as non-performing loans in accordance with the requirements of the CBRC. The Corporate Department of our head office is responsible for monitoring, analyzing and managing non-performing loans, and the collection of non-performing loans, while the Legal Affairs Department is responsible for managing arbitrations and litigations arising from collection or disposal of non-performing loans.

As our first step in collecting non-performing loans, we give a notice of loan collection to the borrowers. If we are unable to collect the non-performing loans within a reasonable period after the issuing of the notice, depending on the specific conditions of the borrowers, we may choose to (i) exercise our rights in respect of any collateral or security; (ii) initiate legal or arbitration proceedings to collect the loans; (iii) dispose of the non-performing loans; or (iv) write off the loan assets according to the relevant requirements of the MOF.

Foreclosure on collateral or enforcement of guarantees. If we are unable to make the borrowers repay the loans, and the borrowers discontinue their operations or their financial condition deteriorates, we may, depending on the circumstances, decide to foreclose on the loan collateral through legal proceedings or demand repayment in accordance with the terms of the guarantee. We generally auction the collateral publicly in an attempt to recover the principal and accrued interests.

Collection of loans through legal or arbitration proceedings. If the borrowers or guarantors have no intention to repay the loans, or they are involved in other legal proceedings that may affect our loan collection, or we are unable to collect the loans as a result of other circumstances or other actions taken by the borrowers or the guarantors, we generally will initiate legal or arbitration proceedings against the borrowers or guarantors to collect the loans.

Disposal of non-performing loans. We may dispose of non-performing loans to third-party asset management companies, qualified organizations or other third-party trading platforms.

Write-offs. For loans classified as loss, if we are still unable to recover loans after taking all measures, we will write off the loan that is qualified and identified for write-offs according to relevant requirements of the MOF.

Risk Management for Bank Acceptance Business

Our bank acceptances are not reflected on our balance sheet, but constitute contingent assets or contingent liabilities. We apply the same review and approval procedures as well as post-lending management for bank acceptance business as those for corporate loan business. We verify the truthfulness of the transactions underlying bank acceptance applications and pay close attention to the cash flow of the applicant. We also generally require our customers to pay a deposit in respect of bank acceptances, and/or demand collateral, pledges and/or guarantees to fully cover our exposure.

Portfolio Management and Credit Guidelines

We publish annual working guidelines on loan extension to optimize our asset portfolio and credit structure, and control our credit risk exposure. In addition, we have established special policies for the credit risk management for key risk areas such as loans extended to local government financing vehicles, loans to real estate developers and loans to enterprises in industries with overcapacity.

Credit Risk Management for Loans to Local Government Financing Vehicles

In accordance with the regulatory requirements of the CBRC on loan risks of local government financing vehicles, we follow the principle of "controlling the total loan amount, managing loans based on their categories, undertaking differentiated approaches and mitigating risks" when extending loans to local government financing vehicles. We also formulated specific measures to improve the credit entry criteria, and monitor the repayment sources.

We pay close attention to governments' investment plans and gradually adjust the structure of loans to government financing vehicles based on reasonable assessment of the government's loan repayment ability. In respect of new loans to government financing vehicles, we centralize our approval authority in our head office and prudently approve loans to local government financing vehicles upon satisfaction of relevant regulatory requirements and our entry requirements. We only grant new loans to borrowers with full cash flow coverage (i.e., borrowers with sufficient cash flow to fully repay the loan principal and interest) with sufficient collateral, pledges and guarantees. As for loans already extended to local government financing vehicles, we continue to push forward adjustments in security and guarantees, terms of loans and means of repayment. We also evaluate the status of the cash flows coverage and formulate risk action plans for each loan to the vehicles. Meanwhile, we also increase our efforts in collecting loans to local government financing vehicles and ascertain the sources of capital for repayment in advance, so as to prevent late repayments. In addition, we have also established a full-caliber accountability statistical system for the local government financing platform, so as to dynamically collect all statistics about the credit risks related to these loans, and generally manage the relevant risks in debt settlement.

As of December 31, 2011, 2012 and 2013 and June 30, 2014, the total outstanding balance of loans extended to local government financing vehicles amounted to RMB8,005 million, RMB7,719 million, RMB7,631 million and RMB7,417 million, respectively, accounting for 8.35%, 6.95%, 5.89% and 5.18%, respectively, of our total outstanding corporate loans. As of June 30, 2014, the balance of loans to local government financing vehicles was RMB7,417 million, of which RMB3,990 million, RMB1,420 million, RMB1,790 million and RMB216 million were invested in land reserves, transportation and infrastructure, industrial parks and other sectors, respectively. Among such loans, RMB6,451 million was secured by collateral, pledges and guarantees, accounting for 87% of our total loans to local government financing vehicles as of June 30, 2014. All of our loans to local government financing vehicles were classified as “pass” as of the same date.

Credit Risk Management for Loans to Real Estate Developers

We carefully study real estate industry policies, actively carry out market researches and comprehensively estimate risk in relation to the real estate market for precaution. We impose strict restrictions on loans granted to real estate development projects with our head office centrally reviewing and approving all loans granted to real estate developers. Our credit review in respect of real estate loans focuses on the strength of the real estate development enterprises, real estate development projects to be funded and the industrial policies of the government of the PRC. We have established a management model based on the “entry list”, which can be dynamically adjusted, for real estate developers. We conduct evaluation on the real estate developers’ ability to perform their obligations under contracts based on their experience and financial resources and specific conditions of the real estate development projects. We then include the real estate developers with higher ability to perform their obligations under contracts in our list and in principle we will only grant loans to such developers. To the extent that the risks are manageable, we will reasonably allocate our credit resources to support the real estate enterprises operating in good faith with satisfactory qualifications as well as those projects with good prospects, which are either under construction or continuing construction. We have established strict requirements with regard to the security of the loans to real estate developers. We require all loans granted to real estate developers to be secured by the land use rights of the projects to be developed and the projects to be financed. We also carefully determine the value and discount rate of the collateral by fully taking into consideration the changes in market price of the collateral. We closely monitor the changes in the collateral's market value, conduct regular revaluation and demand additional security in a timely manner, such as increasing equity pledge, third-party guarantee or other collaterals in an effort to prevent the risk of the decline in collateral's value.

As for post-lending management, we require the loans to be repaid in proportion to the sales proceeds and repayment in full before 50% of the project is sold. In addition, according to the CBRC's requirements, we conduct stress tests on the real estate loans at least once in each quarter.

As of June 30, 2014, our loans to the real estate industry were RMB27,729 million, accounting for 19.4% of the outstanding amount of our corporate loans. The non-performing loan ratio of our loans to real estate developers was 0.34%.

Credit Risk Management for Loans to Industries with Overcapacity

The PRC State Council and the CBRC promulgated policies to restrict loans to industries identified with serious overcapacity. In accordance with those policies, we strive to control the loans granted to such industries and the relevant credit risk.

In accordance with the list of industries with overcapacity regularly published by relevant government authorities, we prohibit all forms of new credit extension to enterprises or projects not in compliance with national industrial policies and market entry conditions.

In addition, we place great importance on post-lending management work regarding industries with overcapacity. We regularly update the loan status of each borrower from those industries, and regularly check the loans granted to industries which have or may have overcapacity issues, so as to ensure that the projects financed by those loans are in compliance with the requirements of the industry, environment and use of land and other regulatory requirements. In respect of the loans discovered to have problems upon such examination by relevant departments or the borrowers who fail to meet our credit standards, our loan agreements generally allow us to demand early repayment by the borrowers or delay further loan disbursement. As of June 30, 2014, loans extended to industries with overcapacity were all classified as "pass".

Credit Risk Management for Retail Banking

The credit risk of our retail banking business is managed by the Corporate Department and the Retail Department of our head office. The Corporate Department is responsible for the risk management of personal loan business and the Retail Department is responsible for risk management of retail banking business other than personal loan business, including the credit card business. All branches and sub-branches establish their own management systems and implement rules within their authorization. See "– Risk Management Framework – Risk Management Departments – Risk Management Departments at Head Office".

Loan Applications and Pre-loan Investigation

We require individual borrowers to complete application forms with specified information, such as source of income, employment status, bank account and credit records. We adopt a "two-person investigation" system in respect of the investigation for personal loans, which requires the main loan officer and the assistant loan officer to jointly examine the information provided by the borrowers, obtain relevant supporting documents and meet with the applicants. When evaluating the credit status of the borrowers, we take into consideration the information obtained from channels such as the PBOC's national individual credit information database, the tax authorities in the areas where the borrowers are located and the applicants' employers in accordance with the relevant policies of the head office. In respect of the loan applications secured by collateral and pledges, two loan officers shall verify the value of the collateral based on the evaluation reports issued by qualified third-party appraisal agencies. Upon completion of the aforesaid evaluation, the loan officers adopt quantitative and qualitative methods to evaluate the risk of the loan applications based on the cash income of the borrowers, and then issue the risk evaluation reports and submit relevant supporting documents to the personal loan approval officers.

Credit Review and Approval

We authorize all branches to handle the review and approval of personal loan business, and certain sub-branches may approve personal loans within the authorized limit. In accordance with the requirements of the relevant systems formulated by our head office, each branch and sub-branch has established its specific system in relation to loan review and approval based on its location, types of businesses and customer bases, in an effort to investigate the legality, rationality and accuracy of the loan applications comprehensively. We will pay special attention to the due diligence of the loan investigators and the repayment ability, credit status, guarantee status, loan to collateral/pledge ratio and risk level of the borrowers.

Loan Disbursement and Post-lending Management

The disbursement procedure of personal loans is similar to that of the corporate loans, and loans shall be disbursed after all the disbursement conditions are satisfied. In respect of mortgage loans for commodity properties, we generally obtain authorization from the personal loan borrowers and directly pay the loan proceeds to the real estate developers. In addition, we conduct follow-up post-lending inspections regularly and maintain communication with borrowers. We monitor the source of funding and progress of loan repayment, and focus on any material changes in borrower's revenue and expenditure. For overdue personal loans, we will look into the reasons for breach of contract by phone call, meeting with the borrower or on-site inspection. If there is a default risk, the Bank will promptly issue a risk warning, and increase the post-lending inspection frequency. If the default risk is significant, we will suspend the loans or require additional collateral. In addition, we have also adopted a series of measures to mitigate the loss, such as dispatching a notice of default and loan collection, or filing legal proceedings if necessary. The frequency of our post-lending inspections may vary depending on the nature of the loans and the relevant risk exposure.

In addition, we classify personal loans into five categories based on the number of days overdue and the types of collateral or guarantees in accordance with the requirements of the CBRC. See the section entitled "Description of Our Assets and Liabilities – Assets – Asset Quality of Our Loan Portfolio – Loan Classification".

Credit Risk Management for Credit Card Business

We have established a credit card risk management system that prevents and monitors potential risks in the course of credit card application and after the card issuance, and addresses defaults by the cardholders. Our Retail Department has also formulated a series of rules and policies to standardize the marketing and promotion of credit cards, credit line approval and the collection of overdue repayments. To prevent fraudulent applications, the responsible officers of sub-branches will conduct an in-person interview with the applicant, and collect the information for the credit card application. We set up strict entry requirements for credit card applicants. The credit card approval teams of branches verify customers' credit information through various channels and evaluate the applicants' income, employment status and credit history through an integrated scoring system in order to grant reasonable credit lines. We have established the Bank Card Center under the Retail Department to conduct real-time monitoring of credit card risks. The Bank Card Center has launched a credit card transaction monitoring system to identify suspicious transactions. In respect of a cardholder with higher risk (for example, cardholders whose financial conditions experienced material adverse change or cardholders that defaulted), the Bank Card Center will promptly give risk prevention advice such as adjustment of credit line or card suspension to the branch which issued the credit cards. Meanwhile, in order to improve the effectiveness of collection, all branches have set up a post for collection management that studies collection means as well as supervises and manages the collection operators. We collect overdue repayments through phone calls, letters, in-person visits, third-party credit card debt collectors or legal proceedings, depending on the risk profile of the cardholders.

Credit Risk Management for Treasury Business

Our treasury business is exposed to the credit risk associated with the investment business and inter-bank business. The Policy and Review Committee for Risks of Asset Investment, Operation and Management at our head office is the decision-making authority for risk management of our treasury business.

Credit Risk Management for Investment Business

Our investment business includes investments in bond and debt instruments issued by financial institutions. We carry out risk management of investment business by means of entry requirement assessments, credit approval, credit control and risk assessment. Our investment business adopts a centralized management model at our head office, and our branches and sub-branches may not engage in investment business without prior authorization from our head office.

Bond Investments. To comply with the management requirements on the maturity structure of our assets and liability, and minimize the impact on capital adequacy and liquidity, we invest primarily in the bonds or notes guaranteed by the State or those with a lower risk, including bonds and central bank bills issued by the PRC central government, policy banks, and other financial institutions and non-financial institutions. In addition, pursuant to the credit approval process, we set the credit limits for each bond issuer so our bond investment will not exceed the limit.

Investments in Debt Instruments Issued by Financial Institutions. Our investments in the debt instruments issued by financial institutions mainly include trust beneficiary rights, directional asset management plans and wealth management products issued by other commercial banks in the PRC.

We manage the investments in trust beneficiary rights in our centralized credit management system. We have established a counterparty evaluation system to conduct credit assessment on the financing parties, and require the financing parties or third parties to provide full guarantees for the principal and expected yields under the trust beneficial rights by collateral, pledges or guarantees. In selecting the financing projects for investments through the trust beneficiary rights, we, on the conditions that the projects must be legal and subject to manageable risks, mainly select the projects with high yields and growth prospects. Before investing in the projects, we will review the due diligence investigation on the financing parties and financing projects by the trust company issuing the trust scheme, participate in the due diligence investigation on the financing projects, and carry out corresponding credit assessment of the financing project and financing parties. After investing in the projects, we will carry out follow-on investigations of the financing parties and real-time monitoring of their operation and financial position. In addition, in accordance with the contracts entered into between us and the trust company, in the event that the trust company is unable to fully recover the principal and expected yields from the financing parties, we may require the trust company to take certain actions, including exercise of its rights under guarantee, so as to reduce our losses.

We manage the credit risks of directional asset management plans by centralized approval and management by our head office. The Financial Market Operation Center in our head office conducts a strict review of the risks and approves directional asset management plans within its authorization in accordance with our relevant policies as described below. For those directional assets management plans beyond its authorization, the Financial Market Operation Center, after conducting a preliminary review, will submit them to the Risk Control Center, which will carry out independent risk evaluation on those directional assets management plans, based on which the Policy and Review Committee for Risks of Assets Investment, Operation and Management will make the ultimate decision. Before we enter into contracts of directional asset management plans, we would carry out comprehensive risk review of the asset management companies or the securities companies. After completing our risk assessment of total assets, net assets and capability to perform contracts of the asset management companies or the securities companies, we would request such companies to arrange sufficient professionals to manage the trust assets, and ascertain whether the companies have in place sound internal risk control, internal audit, accounting management and human resources to ensure that the assets we entrust and the companies' own assets are segregated. Furthermore, we would require that the asset management companies or the securities companies may not make any investments until the third-party custodian banks (on our entry list for financial market business) receive our written instructions. In addition, the funds under the directional assets management plans would be placed at and supervised by the third party custodian banks in accordance with our contracts with the asset management companies or the securities companies, and the transfer of funds must be made and supervised by the custodian bank. The banks issuing the negotiated deposits or guaranteeing the bank acceptance bills invested under directional asset management plans are also our credit customers. Besides, based on our overall risk appetites, we set up respective investment objectives for each directional asset management plan.

Prior to making investment in wealth management products issued by other financial institutions, we assess the risks associated with such wealth management products by reviewing various factors, including the credit condition of those commercial banks and the portfolio investments of the wealth management products. We generally invest in wealth management products issued by listed commercial banks which have relatively good asset management capabilities. Our investments in wealth management products issued by other financial institutions are subject to centralized credit extension management according to credit risk management for inter-bank business; for details in this regard, see "– Credit Risk Management for Inter-bank Business".

Credit Risk Management for Inter-bank Business

Our inter-bank business includes money market transactions, inter-bank discounts and rediscounts of bills. Our inter-bank business is subject to centralized approval and management by our head office, and no branches or sub-branch may conduct any inter-bank business without prior authorization from our head office.

We assess operating condition, financial condition, off-balance sheet commitment, compliance with regulatory indicators, risk events, proposed cooperation and other indicators of the banks of our inter-bank business, and determine reasonable credit lines in accordance with their actual needs and solvency, as well as our asset and liability structure and credit approval requirements. We classify inter-bank customers into four categories. Each category corresponds to a different risk coefficient. We extend credits to an inter-bank customer by reference to the amount derived from its net capital or net asset value multiplied by the risk coefficient. Our Financial Market Operation Center, as the management department for the credit lines of inter-bank business, timely adjusts and monitors the credit lines in accordance with the relevant approval requirements.

Information Technology for Credit Risk Management

Our credit risk management system is the technical foundation for our bank-wide credit risk management, as well as a prerequisite for achieving the electronic management for risk control prior to and during a risk event. We developed and established a credit risk management system, and further strengthened the application of information technology to the control and prevention of credit risk. For the credit risk management, we have completed upgrading and improving the customer credit rating model and credit risk classification, thus optimizing the functions of risk assessment measurement tools. Meanwhile, we have established the internal rating information systems for our corporate banking business, providing technical support to strengthen our credit risk management.

MARKET RISK MANAGEMENT

Market risk refers to the risk of losses that may be suffered by the Bank in its on/off-balance-sheet business as a result of unfavorable changes in market prices, including interest rates, exchange rates, stock prices and commodity prices. The Bank's exposure to the market risk arises primarily from our assets and liabilities on the balance sheet.

Our market risk mainly includes interest rate risk and exchange rate risk. Interest rate risk is the risk of loss that we may suffer the adverse movements in statutory interest rates or market interest rates. Exchange rate risk is the risk of loss that we may suffer from the mismatches of the currency denomination of our assets and liabilities. Our market risk management aims to manage and monitor market risk, control the potential losses associated with market risk within the acceptable limit and maximize our risk-adjusted income. In accordance with the "Guidelines on Market Risk Management of Commercial Banks" (商業銀行市場風險管理指引) promulgated by the CBRC on December 29, 2004, we have established a market risk management system. Our senior management is responsible for formulating, periodically reviewing and monitoring the implementation of the market risk management policies, determining the acceptable level of market risk and authorizing the Risk Management Committee to supervise and manage the market risk management. The Financial Market Operation Center and the International Business Department of our Bank are responsible for identifying, measuring, monitoring and reporting the market risk of our various business lines. The Planning and Accounting Management Department is responsible for formulating and implementing the policies and systems relating to the market risk management and provides various data on market risks and other technical support to the International Business Department and the Financial Market Operation Center. Our Risk Control Center is responsible for the overall market risk management.

Market Risk Management for the Banking Book

Interest Rate Risk Management

The interest rate risk of the banking book arises primarily from the mismatch of the maturity or repricing dates of our interest rate-sensitive assets and liabilities. Maturity mismatch may cause our net interest income and financial position to be affected by movements of the then-prevailing interest rates. We manage the interest rate risk of the trading book primarily through optimizing the maturity portfolio of our assets and liabilities. We also use interest rate exposure analysis, duration analysis and other analysis tools to enhance quota management and continuously monitor market risk. Among them, the exposure analysis is used to measure the differences between the interest-earning assets and interest-bearing liabilities which will expire or be re-priced within a certain period, allowing us to have a static view of the maturities and re-pricing characteristics of our assets and liabilities. We also use the data obtained from the exposure analysis to conduct stress testing under the simulated interest rate scenarios, so as to provide guidance for us to adjust the maturities of our interest-earning assets and interest-bearing liabilities. At the same time, in order to strengthen our internal capital pricing management, we have established a bidding and price inquiry system among our head office and branches, and a comprehensive pricing system based on the SHIBOR maturity structure, thus improving our inter-bank treasury management business. In addition, we extract data from the trading system of the Foreign Exchange Trading Center, the China Bond Integrated Business Platform (中債綜合業務平台) and the Wind Information Financial Terminal and other analysis systems, conduct scenario analysis on market risk, including adverse changes in the market prices of assets and the benchmark interest rate which may cause our losses, and formulate appropriate emergency plans. We have adopted the innovative capital management system developed by China Foreign Exchange Trading Center to further increase the market risk measurement tools and improve our market risk management capabilities.

Exchange Rate Risk Management

Exchange rate risk refers to the risk arising from mismatches of the currency denominations of assets and liabilities. The Bank's exposure to the exchange rate risk arises from our loans and deposits denominated in currencies other than RMB.

We carry out risk control mainly by closing out market positions, regularly reevaluating the market value of our own foreign exchange capital, timely adjusting the profit and loss from foreign exchange exposures, and conducting sensitivity analysis on foreign exchange exposures and stress testing on exchange rate risk on a regular basis. Meanwhile, we determine the exposure of foreign exchange settlement and sale within the general position on foreign exchange settlement and sale approved by the SAFE, adjust the exposure of different currencies, conduct quota management on traders and single transactions, timely close out any excessive exposure of foreign exchange settlement and sale, and control the exchange rate risk by reducing risk exposure. In addition, we use the innovative capital management system developed by China Foreign Exchange Trading Center to achieve the centralized management of front, middle and back office data of foreign exchanges, and properly manage the balance of the daily general position of foreign exchange settlement and sale, thus effectively preventing the exchange rate risk and protecting our foreign exchange assets.

Market Risk Management for the Trading Accounts

The market risk of transaction accounts of the Bank arises primarily from change of asset value of financial products in transaction accounts, which are affected by market interest rates and exchange rates. We set the market risk limit indicators for our trading accounts, including the sensitivity limit and the stop-loss limit for exchange rates and interest rates, reevaluate the market value of positions in our RMB trading accounts on a daily basis, and measure the market risk of foreign currency trading accounts regularly through the sensitivity analysis, stress testing and other measures.

LIQUIDITY RISK MANAGEMENT

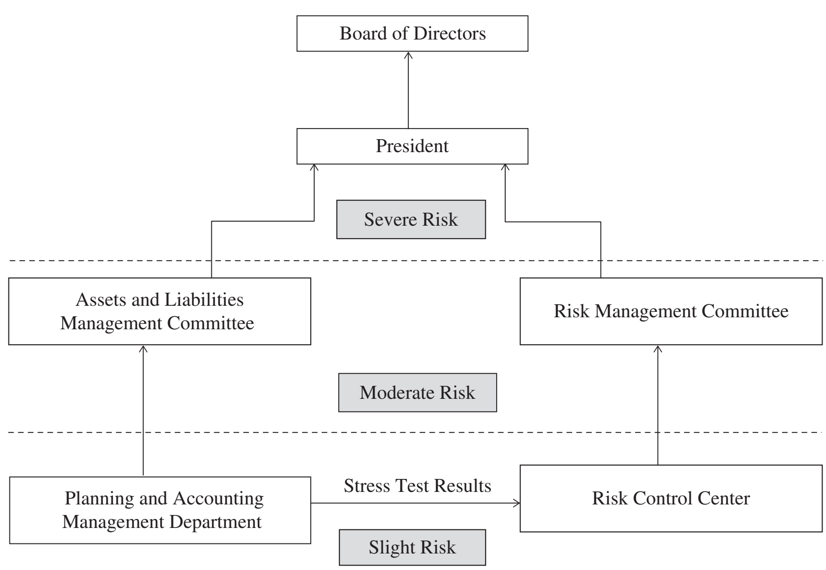
Liquidity risk refers to the risk of failure to obtain adequate funds to repay debts in time or at reasonable cost. Our liquidity risk management seeks to effectively identify, measure, monitor and control our liquidity risks, comply with relevant regulatory requirements, ensure that we are able to perform repayment obligations under any circumstances, and finance all our payment needs and other businesses in a cost-effective manner.

We have implemented the centralized management of our bank-wide liquidity risk by our head office, and established the liquidity risk management framework which mainly comprises the Assets and Liabilities Management Committee, the Risk Control Center and the Planning and Accounting Management Department at our head office. The Assets and Liabilities Management Committee is the decision-making body for liquidity risk management and is responsible for formulating the guidelines and policies for liquidity risk management; the Risk Control Center is the liquidity risk management department and is responsible for formulating, implementing and evaluating relevant systems, setting the bank-wide risk warning limits and guiding various business departments to manage liquidity risk on a daily basis; the Planning and Accounting Management Department is the implementation department for liquidity risk management and is responsible for implementing relevant liquidity risk management policies, monitoring various liquidity risk indicators, regularly carrying out risk analysis and reporting to the Risk Control Center and the Assets and Liabilities Management Committee.

We have complied with the relevant guidelines issued by the CBRC with respect to liquidity risk management, for example, the "Notice on Further Strengthening the Supervision of Liquidity Risk of Commercial Banks" (《關於進一步加強商業銀行流動性風險監管的通知》), and the "Rules Governing Liquidity Risk Management of Commercial Banks (Trial)" (《商業銀行流動性風險管理辦法(試行)》) effective from March 1, 2014. See "Supervision and Regulation – Risk Management – Liquidity Risk Management" for details.

We manage liquidity risk by monitoring the maturities of our assets and liabilities, while actively monitoring multiple liquidity indicators, including loan to deposit ratio, liquidity ratio, reserve ratio, inter-bank loan to saving ratio, loan quality ratio and liquidity gap ratio. Meanwhile, we forecast the liquidity of each branch on a periodic basis. We conduct liquidity analysis on a monthly basis, perform stress testing on liquidity risk on a quarterly basis, and report the same to the Assets and Liabilities Management Committee, so that it can adopt appropriate risk mitigation mechanisms based on the liquidity risk it acknowledges.

Our current liquidity risk warning mechanism classifies the excessive reserve ratio, current liability exposure ratio, liquidity ratio and the liquidity gap ratio into four levels, namely “safe”, “mild”, “moderate” and “severe”. If all of the four indicators fall into the “safe or mild” level, the liquidity risk is in the “green safety zone”; if any two indicators fall into the “moderate” level, the liquidity risk is in the “yellow warning zone”; if any two indicators fall into the “severe” level, the liquidity risk is in the “red danger zone”; and if all of the four indicators fall into the “severe” level, it indicates “the outbreak of liquidity risk”. For the above four indicators, we have established the “Liquidity Risk Dual Reporting Mechanism” (as shown below), to ensure that the liquidity risk warning can be promptly delivered to the management department, the appropriate liquidity risk mitigation mechanism can function in time and the potential loss can be minimized. Specifically, if any two indicators fall into the “mild” level, the Planning and Accounting Management Department shall report the stress test results to the Risk Control Center which will then put forward the solutions to the business department; if any two indicators fall into the “moderate” level, the Risk Control Center shall report to the Risk Management Committee, the Planning and Accounting Management Department shall report to the Assets and Liabilities Management Committee, and the Risk Management Committee and the Assets and Liabilities Management Committee shall jointly formulate a risk response plan based on the nature and adverse effect of the events; if any two risk indicators fall into the severe level, the heads of the Risk Management Committee and the Assets and Liabilities Management Committee shall jointly determine the risk response measures with our President and our President will report the relevant measures to the Board.



We formulated a liquidity risk emergency plan to ensure sufficient liquidity under various market conditions. After the occurrence of a liquidity risk event, the Assets and Liabilities Management Committee and functional departments of our head office will determine the nature, potential adverse effect and controllability of the event, launch an emergency plan in a timely manner, and take effective actions promptly according to its terms of reference and scope of authorization. Upon completion of emergency solutions for liquidity events, relevant functional departments should deal with the aftermath, resume normal operations in a timely manner to eliminate negative impact as soon as possible, avoid derivative risks and prevent reoccurrence of liquidity risk events.

OPERATIONAL RISK MANAGEMENT

Operational risk refers to the risk of loss that may be incurred due to inadequate or problematic internal procedures, personnel and information technology systems, and external events, including internal and external frauds, business interruption and failure of information technology system.

We established "Three Lines of Defense for Risk Management" on the basis of the main prevention and control organizations consisting of each business department, the Risk Control Center, compliance department and internal audit departments and also set up operational risk reporting mechanism between risk control center and business units, the head office and branches.

We have formulated operational risk management policies and procedures, aiming to effectively identify, assess, monitor, control and mitigate our operational risk, and reduce losses associated with the operational risk.

Our measures to manage our operational risk mainly include:

- establishing and improving the risk management system for various business operational mechanisms, strictly separating responsibilities of the front, middle and back office, and optimizing business procedures and risk management procedures;

- making use of risk alert system and paying attention to risk position and early risk alert on each aspect of business; updating operational risk guidelines covering all departments and positions from time to time; carrying out centralized risk management on high-risk businesses and important management areas so as to reduce business operational risk;

- establishing a supervision system combining "on-site and off-site", "regular and special", "self and external" examinations, identifying, monitoring, collecting risk factors and risk signals in the course of business operations, using centralized operational risk management tools, supervising and evaluating the sufficiency and effectiveness of operational risk management;

- establishing the Professional Skill Appraisal System covering all positions, and selecting qualified employees through strict qualification, examination and professional evaluation in accordance with the expertise and skills required by our various positions; and

- establishing a linked emergency management system, launching business continuity system establishment, organizing and implementing drills for the purpose of continuous operations so as to ensure the continuous and effective operations of the Bank's business.

INFORMATION TECHNOLOGY RISK MANAGEMENT

Information technology risk refers to operational, reputational, legal and other risks caused by natural factors, human factors, technical limitations and management loopholes in the course of our usage of information technology. Our objectives of information technology risk management are to identify, monitor, assess and control information technology risks by establishing a complete, reasonable and effective mechanism of information technology risk management, so as to operate our business in a safe, continuous and stable environment, and, at the same time, promote our business innovation with advanced information technology and enhance our core competitiveness and capability of sustainable development. The Information Technology Department, Risk Control Center and Audit Department are in charge of the implementation of specific policies, plans and schemes.

Our main information technology risk management measures include:

- improving the operational stability of our various operation systems through load balancing and redundancy design technology, and optimizing the security of our operation systems in respect of infrastructure, operation maintenance and virus prevention;

- formulating and improving various rules and policies related to information technology risk management, conducting regular inspection of information technology risk, promptly rectifying the problems discovered during the inspections and assessing the measures and effects of the rectification;

- establishing contingency management system of information technology risk and introducing supporting measures; and

- initially establishing a disaster recovery system comprising "three centers in two cities", including a data center and an intra-city disaster recovery center in Shenyang, and an inter-city disaster recovery center in Yingkou. In addition, our Bank continues to enhance functions of the inter-city disaster recovery center and improve the disaster emergency drills solutions.

REPUTATIONAL RISK MANAGEMENT

Reputational risk refers to the risk of negative publicity about our Bank generated by relevant interested parties in respect of our Bank's operations, management and other activities or external events. Our objective of reputational risk management is to identify, monitor, control and eliminate reputational risk by establishing an effective mechanism of reputational risk management, so as to build and maintain our good image and promote our continuous and healthy development.

We have established the Reputational Risk Management Steering Group at our head office with the President as the chairman and heads of business departments as the members. The group organizes and coordinates each department and branch to conduct work such as the identification, assessment, monitoring and prevention of reputational risk in accordance with their respective duties, and is responsible for emergency solutions and recovery work against any significant reputational incidents, such as taking command of emergency solutions, coordination and management. The President's Office undertakes the routine work of the Reputational Risk Management Steering Group.

Our major reputational risk management measures include:

- formulating and modifying the basic policies and management system for reputational risk management, and clarifying the processes of identification, reporting and resolution of reputational risk incidents;

- enhancing our positive influence by communicating with various media;

- focusing on the trend of public opinions, daily reporting public opinions and conducting regular investigation of reputational risk, and strengthening the capabilities of risk alert and emergency solution;

- enhancing customer services and complaint management, and improving service quality and standards; and

- enhancing training of front office staff.

LEGAL AND COMPLIANCE RISK MANAGEMENT

Compliance risk refers to the risk of being subject to legal sanctions, regulatory penalties, significant financial loss and reputational loss as a result of the failure of a commercial bank to comply with laws, regulations, rules and relevant industrial standards. The objective of our compliance risk management is to achieve an effective identification and management of compliance risk by establishing a sound mechanism of compliance risk management, thereby enabling us to operate in accordance with laws and regulations.

We have established an organizational system of compliance risk management with a three-level structure comprising the head office, branches and sub-branches. The Compliance Department is set up in our head office, and is responsible for compliance risk management throughout the Bank. At the branch and sub-branch level, the compliance departments or the compliance management positions at branches within the risk control department or related departments are set up based on actual situations, and compliance officers and compliance personnel are put in charge of the compliance risk management of their respective units of branches and sub-branches.

We manage compliance risk mainly through the following measures:

- improving the compliance review mechanism, identifying and assessing the compliance risks related to our operating activities, organizing and assisting in the annual amendment to business-related rules and policies and operational rules by various business departments to ensure the synchronization of business innovation with compliance.

- developing the annual compliance management plan to determine the emphases and schedule of the annual compliance work, and facilitating the orderly implementation of the compliance work of all branches and sub-branches.

- constantly monitoring the development of regulatory policies, and timely reporting the compliance information and compliance risk to the senior management and business lines to enable each business to comply with the relevant regulatory requirements. Meanwhile, we conduct regular compliance training for staff, and send compliance alerts and reminders to the staff through internal publications.

Legal risk refers to the risk of legal liability that a commercial bank may assume due to violation of laws and regulations, breach of contracts, infringement or otherwise in connection with any contract or business activity. Our Legal Affairs Department of the head office is our legal risk management department and is responsible for the preparation and review of contracts and other legal documents, the management of litigations and loan collection, the organization of internal legal training, and guiding legal affair management in branches. The branches designate the risk control departments or related asset management departments to handle the legal affairs in their respective business. We also have established procedures and policies as well as contract templates and legal documents to manage our daily legal risk.

Anti-Money Laundering Management

We have formulated comprehensive anti-money laundering policies and procedures in accordance with the PRC Anti-Money Laundering Law and other applicable laws and regulations promulgated by the PBOC. We have established the Anti-Money Laundering Steering Group at our head office, which is headed by our President and our managing Vice President. The Anti-Money Laundering Steering Group is responsible for enforcing laws, regulations and policies relating to anti-money laundering activities, formulating the relevant anti-money laundering rules and procedures, monitoring our compliance with the anti-money laundering laws and regulations. The Compliance Department and the Planning and Accounting Management Department at our head office are responsible for managing our daily anti-money laundering work and coordinating various anti-money laundering activities. Our branches and sub-branches have established their respective anti-money laundering groups based on the staff composition of the Anti-Money Laundering Steering Group at our head office, the regulatory requirements and their actual status.

In accordance with the PRC Anti-Money Laundering Law and the relevant anti-money laundering regulations promulgated by the PBOC, we have implemented internal rules and procedures according to customer identity verification requirements, customer identification and transaction record keeping system, and large and suspicious transaction reporting system. We have integrated the large and suspicious transaction identification standards into the anti-money laundering information monitoring and reporting system and we submit a large transaction report and a suspicious transaction report to the PRC Anti-Money Laundering Monitoring and Analyzing Center on every business day. In the event we have a reasonable basis to believe that a transaction or a customer is connected with any significant money laundering activities, we will also report simultaneously to the local branches or sub-branches of the PBOC and cooperate in the PBOC's anti-money laundering investigation.

Moreover, to enhance the Bank's ability to detect and monitor suspected money laundering and terrorism financing in cross-border transactions, we put in place the Sanctions Screening System provided by the Society for Worldwide Inter-bank Financial Telecommunication. As a result, all documents in relation to cross-border transactions are screened and those possibly connected with money laundering and terrorist financing will be intercepted. We will then examine the intercepted documents, and if the related transactions are for money laundering and terrorist financing, we will immediately report to local branches or sub-branches of the PBOC and cooperate in its investigations.

We conduct on-site and off-site anti-money laundering inspections of our branches and sub-branches. We also provide relevant training to our employees to strengthen the supervision and guidance of our branches and sub-branches.

INTERNAL AUDIT

We have always attached great importance to internal audit, as it is essential to our stable operation and sustainable development. The objectives of our internal audit are to ensure the consistent implementation of relevant economic and financial laws and regulations, guidelines and policies, regulations of regulatory authorities and our internal rules and policies and operating guidelines, contain risks at an acceptable level within the Bank's risk framework, and improve the operations of the Bank.

We implement the independent and vertical organizational system for internal auditing work, which is accountable to the Board, subject to the supervision of the Audit Committee. The Audit Department at the head office is responsible for internal audit. We also established audit departments in five branches in Shenyang, Beijing, Tianjin, Shanghai and Dalian according to business development needs. Each of such audit departments performs its internal audit functions under the centralized leadership of the Audit Department at the head office. Internal audit includes examination to assess our risk management system and the effectiveness and adequacy of risk policy.

We have formulated a series of internal audit-related rules and systems, including internal audit charter and internal audit standards, to carry out risk-oriented evaluation and improvement of our operating activities, including assets business, accounting and inter-bank business, risk management, internal control and corporate governance effect, through standard audit methods, such as routine audits, special audits and audit investigation, and proposing appropriate risk reduction suggestions for our sound development. In addition, we have established a distinct internal audit information reporting mechanism which reports our internal audit work to the Board and the Audit Committee on a regular basis, thus realizing the independence and effectiveness of our internal audit work.

In accordance with the Guidelines on Internal Audit for Banking Institutions (《銀行業金融機構內部審計指引》) issued by the CBRC, our internal audit departments should be staffed, in principle, with 1% of our total headcount. During the Track Record Period and as of the date of this prospectus, the headcount of the Audit Department met this regulatory requirement.

INTERNAL CONTROL

Our Internal Control System

We comply with the requirements on the establishment of enterprise internal control under, among others, the PRC Commercial Banking Law, the Basic Rules on Enterprise Internal Control (《企業內部控制基本規範》), the Internal Control Guidelines for Commercial Banks (《商業銀行內部控制指引》) and the guidelines issued by the Basel Committee. We thereby developed an internal control system covering five aspects of internal environment, risk assessment, control activities, information and communication, and internal supervision, and established an internal control system that is in line with our development strategies, operating scale, scope of business and risk appetite.

Internal Control and Management Structure

Our Bank has established a corporate governance organizational structure comprising the shareholders' general meeting (as the ultimate authority), the Board (as the decision-making body), the Board of Supervisors (as the supervisory body) and the senior management (as the executive body). Our internal control and management framework comprises three parts, namely the internal control decision-making level, execution level and supervision and evaluation level. In addition, we have formed an internal control and management framework where the heads of branches and sub-branches and functional departments take charge, and all of our employees participate.

Decision-Making Level

The Board is our decision-making body for internal control. Its responsibilities include establishing and implementing our internal control system, approving our overall operating strategies and key policies and regularly inspecting and assessing their implementation, setting acceptable risk exposures, providing guidance to our senior management in monitoring and assessing our internal control system and causing them to take necessary actions to identify, measure, monitor and control risks, and ensuring our prudent operation in compliance with the relevant legal and policy frameworks.

We established five special committees, namely the Strategic Development Committee, Risk Control Committee, Nomination and Remuneration Committee, Audit Committee and Related Party Transactions Control Committee, under the Board, of which the Risk Control Committee and Audit Committee render independent opinions on our risk management, internal control and other affairs, thereby supporting the decision making. Each special committee shall report its work to the Board.

Execution Level

The senior management of our head office and the committees established thereunder, including the Risk Management Committee, Credit Review Committee, Assets and Liabilities Management Committee, Policy Committee for Risks of Asset Investment, Operation and Management and Information Technology Management Committee, are in charge of coordinating the formulation of our internal control policies, monitoring and assessing the adequacy and efficiency of our internal control system; implementing the resolutions of the Board; establishing the procedures and measures to identify, measure, monitor and control risks; and establishing and improving our internal organizational structure to ensure the effective performance of various internal control duties. Departments of our head office are in charge of the establishment of our internal control system and the implementation of relevant systems throughout the Bank or within the business scope of the respective departments, and shall report to the senior management. The branches and sub-branches are responsible for formulating and implementing their respective internal control plans and rules for operation, based on the internal control processes and rules and policies developed by our head office.

Supervision and Evaluation Level

Our Board of Supervisors, Audit Committee and Related Party Transactions Control Committee under the Board and internal audit departments at various levels are responsible for the supervision and evaluation of our internal control system and its implementation.

The Board of Supervisors supervises the performance and fulfillment of duties of our Directors and senior management; conducts resignation audits of our senior management; supervises our financial activities, business decisions, risk management and internal control, and makes supervisory recommendations; reviews the preparation of periodic reports of the Board and relevant significant adjustments thereto. The Nomination Committee and Supervision Committee are established under the Board of Supervisors to support the internal control and supervision by the Board of Supervisors. Both committees shall be chaired by external supervisors.

The Audit Committee under the Board is responsible to reviewing our accounting policies, our financial status and financial reporting procedures; auditing our financial information; supervising the establishment of our internal control system; review for our evaluation report on internal control; supervising and evaluating our internal audit department; proposing the appointment or replacement of external auditors; coordinating the work of our internal and external auditors; and carrying out other matters authorized by the Board. The Audit Committee shall be chaired by an independent Director.

CONNECTED TRANSACTIONS

Upon Listing, the transactions we have entered into with our connected persons (as defined in the Listing Rules) will constitute connected transactions for us under Chapter 14A of the Listing Rules. Such transactions will continue following the Listing Date, thereby constituting continuing connected transactions under the Listing Rules.

Exempt Continuing Connected Transactions

We are a commercial bank incorporated in the PRC and regulated by the CBRC and the PBOC. We provide 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 (including certain Directors, Supervisors, president and/or their respective associates). Set forth below are details of various continuing connected transactions between us and our connected persons (including certain Directors, Supervisors, president and/or their respective associates). 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 disclosure, annual review and shareholders' approval requirements under Chapter 14A of the Listing Rules.

Commercial banking services and products provided in the ordinary and usual course of business – Loans and credit facilities to connected persons

We extend loans and credit facilities in the ordinary and usual course of our business to certain of our connected persons including our Directors, Supervisors, president and/or their respective associates on normal commercial terms (or commercial terms that are better to us) with reference to prevailing market rates. We expect that we will continue to provide loans and 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 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 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 disclosure, annual review and shareholders' approval requirements under Chapter 14A of the Listing Rules.

Commercial banking services and products provided in the ordinary and usual course of business – Deposit taking

We take deposits in the ordinary and usual course of our business from certain of our connected persons including our Directors, Supervisors, president and/or their respective associates 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 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 rates. 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 placed with a listed issuer on normal commercial terms (or commercial terms that are better to the listed issuer) and not secured by the assets of the listed issuer's group, and thus will be fully exempt from all disclosure, annual review and shareholders' approval requirements under Chapter 14A of the Listing Rules.

Commercial banking services and products provided in the ordinary and usual course of business – Other banking services and products

We provide various commercial banking services and products (including credit/debit cards and wealth management products) to certain of our connected persons including our Directors, Supervisors, president and/or their respective associates at normal prescription fees, service fees and charges in the ordinary and usual course of our business and on normal commercial terms and conditions (or commercial terms that are better to us). We expect that we will continue to provide such banking products and services to our connected persons following the Listing, which will constitute continuing connected transactions for us under Chapter 14A of the Listing Rules.

These continuing connected transactions are the provision of other banking services and products to our connected persons and/or their respective associates in the ordinary and usual course of business and on normal commercial terms that are comparable or no more favourable than those offered to independent third parties and are expected to fall within the de minimis transactions under Chapter 14A of the Listing Rules. As a result, these transactions will constitute fully exempt continuing connected transactions pursuant to Rule 14A.76(1) of the Listing Rules, and thus will be fully exempt from all disclosure, annual review and shareholders' approval requirements under Chapter 14A of the Listing Rules.

DIRECTORS

Our incumbent Board has 15 Directors, including five executive Directors, five non-executive Directors and five independent non-executive Directors. Our Directors are elected for a term of three years and may be 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[(1)]	Position	Responsibility
Ms. ZHANG Yukun (張玉坤)	58	April 1999	March 29, 2008 (November 3, 2008)	Chairperson of the Board	Responsible for the overall operations and strategies of our Bank, performing her duty as a Director through the Board and the nomination and remuneration committee, and responsible for the strategic development committee
Mr. WANG Chunsheng (王春生)	53	September 1997	November 6, 2009 (January 26, 2010)	Executive Director	Responsible for daily operations and management of our Bank, and performing his duty as a Director through the Board, the strategic development committee and the related party transactions control committee
Mr. ZHAO Guangwei (趙光偉)	50	October 1987	November 6, 2009 (January 26, 2010)	Executive Director	Participating in the management of our financial market operation center, compliance department and the business department of the headquarter, taking charge of matters relating to our county banks, and performing his duty as a Director through the Board and the risk control committee
Mr. WANG Yigong (王亦工)	48	June 1998	August 26, 2013 (March 24, 2014)	Executive Director	Participating in the management of our risk control center, international banking department, legal department and development strategies research center, taking charge of the risk control management, and performing his duty as a Director through the Board and the risk control committee
Mr. WU Gang (吳剛)	44	June 1989	May 30, 2014 (June 20, 2014)	Executive Director	Assisting in the management of our corporate business, responsible for the operation and management of our Beijing Branch, and performing his duty as a Director through the Board and the strategic development committee
Mr. LI Jianwei (李建偉)	54	June 2006	June 18, 2006 (October 9, 2006)	Non-executive Director	Performing his duty as a Director through the Board, the audit committee and the related-party transactions control committee

Name	Age	Time of joining our Bank	Date of appointment[(1)]	Position	Responsibility
Mr. LI Yuguo (李玉國)	60	July 2013	June 20, 2014 (September 18, 2014)	Vice Chairman of the Board	Performing his duty as a Director through the Board, the audit committee and the strategic development committee
Mr. ZHAO Weiqing (趙偉卿)	55	March 2008	May 30, 2014 (June 20, 2014)	Non-executive Director	Performing his duty as a Director through the Board, the strategic development committee and the risk control committee
Ms. YANG Yuhua (楊玉華)	51	May 2014	May 30, 2014 (June 20, 2014)	Non-executive Director	Performing her duty as a Director through the Board, the nomination and remuneration committee and the strategic development committee
Mr. LIU Xinfa (劉新發)	55	June 2006	June 18, 2006 (September 3, 2008)	Non-executive Director	Performing his duty as a Director through the Board and the strategic development committee
Mr. YU Yongshun (于永順)	64	May 2014	May 30, 2014 (June 20, 2014)	Independent Non-executive Director	Performing his duty as a Director through the Board and the audit committee, and responsible for the risk control committee
Mr. LAU Chi Pang (劉智鵬)	54	May 2014	May 30, 2014 (July 10, 2014)	Independent Non-executive Director	Performing his duty as a Director through the Board, the audit committee and the nomination and remuneration committee
Mr. BA Junyu (巴俊宇)	59	June 2010	June 29, 2010 (August 5, 2010)	Independent Non-executive Director	Performing his duty as a Director through the Board, the nomination and remuneration committee and the risk control committee, and responsible for the related party transactions control committee
Mr. SUN Hang (孫航)	48	May 2014	May 30, 2014 (June 20, 2014)	Independent Non-executive Director	Performing his duty as a Director through the Board and the related party transactions control committee, and responsible for the nomination and remuneration committee
Mr. DING Jiming (丁繼明)	50	May 2014	May 30, 2014 (June 20, 2014)	Independent Non-executive Director	Performing his duty as a Director through the Board and the related party transactions control committee, and responsible for the audit committee

Note:

(1) The dates in brackets represent the dates on which the relevant Directors obtained approvals of director qualifications from the CBRC Liaoning Bureau.

Executive Directors

Ms. ZHANG Yukun (張玉坤), aged 58, has been appointed as an executive Director and secretary to the party committee of our Bank since August 2002, and chairperson of the Board since March 2008. She is primarily responsible for the overall operations and strategies of our Bank. In addition, Ms. Zhang previously served as president of our Bank during the periods from August 2002 to March 2008 and from August 2009 to August 2013. She is also currently a deputy to the 12th National People's Congress, and has been a member of the Standing Committee of the Political Consultative Conference of Liaoning Province since 2013.

Ms. Zhang has over 25 years of experience in banking business operation and management. She joined our Bank in April 1999. From April 1999 to August 2002, she held a number of management positions in our Bank, including vice president, (managing) vice president, deputy secretary to the party committee and president. Prior to joining our Bank, she held various positions in the Liaoning branch of Industrial and Commercial Bank of China, one of the largest commercial banks in China, including secretary to the policy research office, assistant to general manager, deputy general manager and general manager of the business division, as well as the chief of the Peony Card business division from September 1989 to April 1999. She was an assistant researcher at the Economics Research Institute of Liaoning Academy of Social Sciences (遼寧社會科學院經濟研究所) from August 1982 to September 1989. In addition, she has also served as a council member of the Clearing Centre for City Commercial Banks since 2002, the chairman of the sixth council and deputy chairman of the seventh council of the Liaoning Banking Association since 2011, and a member of the Fifth Advisory Committee for Policy Decision of the People's Government of Liaoning Province since 2012.

Ms. Zhang graduated from the department of economics of Liaoning University (遼寧大學) (Liaoning, PRC) in July 1982, majoring in political economics. She has been a senior economist as accredited by the Senior Economist Evaluation Committee of the Industrial and Commercial Bank of China since March 1999. In addition, Ms. Zhang has also obtained various awards including "2008 Chinese Banking Industry Figure" (2008年度中國銀行業人物) granted by China Finance Research Institute and China Finance Net, "Top 10 Figures for the Revitalization of Liaoning Province" (遼寧省十大振興人物) by Development and Research Centre of the People's Government of Liaoning Province, Liaoning Academy of Social Sciences and Liaoning Daily Newspaper Media Group, and Provincial Labor Model (省勞動模範) by the People's Government of Liaoning Province.

Mr. WANG Chunsheng (王春生), aged 53, has been appointed as an executive Director of our Bank since November 2009 and president of our Bank since August 2013. He is primarily responsible for the daily operations and management of our Bank.

Mr. Wang has over 30 years of experience in banking business operation and management. He joined our Bank in September 1997. From September 1997 to May 1998, he worked as deputy chief of the planning office of our Zhongshan sub-branch. From May 1998 to January 2002, he served as (managing) vice president of our Beizhan Sub-branch. From January 2002 to July 2005, he became president of our Huashan Sub-branch. He worked as general manager of the integrated funds planning department of our Bank from July 2005 to March 2008, and served as vice president of our Bank from March 2008 to August 2013. Prior to joining our Bank, he successively held various positions at Tieling Branch of China Construction Bank Corporation, one of the largest commercial banks in China, from August 1983 to September 1997, including staff member at the integrated office, deputy chief of the integrated office and deputy director of the credit and loan department.

Mr. Wang graduated from Dongbei University of Finance and Economics (Liaoning, PRC) in July 1989, majoring in infrastructure finance (correspondence course), and received a master's degree in business administration from Jilin University of Technology (Jilin, PRC) in November 2000. He has been a senior economist as accredited by the Personnel Office of Liaoning Province since October 2006.

Mr. ZHAO Guangwei (趙光偉), aged 50, has been appointed as an executive Director of our Bank since November 2009 and a vice president of our Bank since March 2008. He also concurrently worked as president and secretary to the party committee of our Shenyang Branch from January 2009 to January 2013. He is primarily in charge of our financial market operation center, compliance department and the business department of our headquarter, as well as matters relating to our county banks.

Mr. Zhao has over 25 years of experience in banking business operation and management. He joined the Huangsi Credit Cooperative of Shenyang Cooperative Bank (瀋陽合作銀行), our predecessor, in October 1987. From October 1987 to January 1999, he worked as a staff member, head of office and vice president of the Huangsi Sub-branch of our Bank (including its predecessor, the Huangsi Credit Cooperative of Shenyang Cooperative Bank). After that, he worked as assistant to president, (managing) vice president and president of our Yaming sub-branch from January 1999 to January 2005, during which he also worked as president of our Xianggong Sub-branch from January 2002 to January 2005. He then served as general manager of the business department of our Bank from January 2005 to July 2006, during which he also served as president of our Faku Sub-branch from September 2005 to July 2006. From July 2006 to March 2008, he worked as general manager of the sales department of our Bank.

Mr. Zhao received a master's degree in economic management from Liaoning University (Liaoning, PRC) in March 1999, and a master's degree in business administration from California American University (California, U.S.) (distance learning) in November 2002. He has been a senior economist as accredited by the Department of Human Resources and Social Security of Liaoning Province since September 2010.

Mr. WANG Yigong (王亦工), aged 48, has been appointed as an executive Director of our Bank since August 2013 and vice president and chief risk officer of our Bank since January 2013. He is primarily in charge of our risk control center, international banking department, legal department and development strategies research center and take charge of the risk control management of our Bank.

Mr. Wang has over 30 years of experience in banking business operation and management. He joined our Bank in June 1998 and served as deputy general manager of the asset security department of our Bank from June 1998 to January 2001. From January 2001 to February 2002, he worked as (managing) vice president of our Liaoshen Sub-branch. He then served as president of our Zhenghao Sub-branch from February 2002 to January 2006, during which he also worked as president of our Liaoshen Sub-branch from February 2002 to February 2003. He held the position of general manager of the credit and loan management department of our Bank from January 2006 to January 2013, during which he also served as head of the development strategies research center of our Bank from January 2009 to January 2013. Prior to joining our Bank, he successively worked as a cashier, a credit clerk and deputy head of credit office at the Tiexi Office of Industrial and Commercial Bank of China in Shenyang from December 1984 to June 1998.

Mr. Wang graduated from The Open University of China (formerly known as China Central Radio and TV University) (Beijing, PRC) in November 2002, majoring in finance. He has been an economist as accredited by the PRC Ministry of Personnel since June 1995.

Mr. WU Gang (吳剛), aged 44, has been appointed as an executive Director of our Bank since May 2014 and a vice president of our Bank since January 2013. He has been president of our Beijing Branch since August 2009. He is assisting in the management of the corporate business and responsible for the daily operation and management of our Beijing Branch.

Mr. Wu has over 25 years of experience in banking business operation and management. He joined the Shenhe City Credit Cooperative of Shenyang Cooperative Bank, our predecessor, in June 1989. From June 1989 to May 1998, he served as a staff member at the Shenhe City Credit Cooperative of Shenyang Cooperative Bank and the Nanhu Sub-branch of our Bank (including its predecessor). From May 1998 to February 2001, he worked as assistant to president of our Nanhu Sub-branch. From February 2001 to February 2003, he successively worked as assistant to general manager and deputy general manager of the asset security department of our Bank. From February 2003 to January 2007, he successively served as (managing) vice president and president of our Taishan Sub-branch. From January 2007 to January 2009, he successively held the positions of president of our Yaming Sub-branch and president of our Shenhe Sub-branch. After that, he worked as deputy director of the preparatory office of Shenyang business operation department of our Bank from January 2009 to August 2009.

Mr. Wu graduated from the Open University of China (formerly known as China Central Radio and TV University) (Beijing, PRC) in June 2003, majoring in finance. He has been an economist as accredited by the Personnel Office of Liaoning Province since November 1997.

Non-executive Directors

Mr. LI Jianwei (李建偉), aged 54, has been appointed as a non-executive Director of our Bank since June 2006. He has been the chairman of the board and general manager of Shenyang Hengxin since July 2004, and deputy general manager of Shenyang Industrial Investment Development Group Co., Ltd. (瀋陽產業投資發展集團有限公司) since July 2013. Prior to that, he successively worked as chief of the asset revenues (property rights) division at Shenyang Finance Bureau from December 2001 to July 2004, deputy chief of the administrative affairs and resources division and chief of capital operation division at Shenyang State-owned Assets Supervision and Administration Commission from March 1994 to December 2001, and principal staff and deputy chief of the accounting division at Shenyang Finance Bureau from March 1985 to March 1994.

Mr. Li graduated from Liaoning University (Liaoning, PRC) in December 1991, majoring in industrial enterprise management, and received a master's degree in philosophy of Marxism from Liaoning University (Liaoning, PRC) in June 2000. He has been a non-practising member of Liaoning Public Certified Accountants Association since December 2009.

Mr. LI Yuguo (李玉國), aged 60, has been appointed as a non-executive Director of our Bank since July 2013 and the vice chairman of the Board since June 2014. He has been the chairman of Huibao International since June 2013 and the chairman of Beijing Jiutai Group Co., Ltd. (北京九台集團有限公司) since May 1993. Prior to that, he successively worked at the planning bureau of the China Association for Science and Technology (中國科學技術協會) as principal staff, deputy chief and chief of the accounting division from August 1983 to October 1992.

Mr. Li graduated from Jiangxi University of Finance and Economics (formerly known as Jiangxi Institute of Finance and Economics (江西財經學院)) (Jiangxi, PRC) in July 1983, majoring in industrial accounting.

Mr. ZHAO Weiqing (趙偉卿), aged 55, has been appointed as a non-executive Director of our Bank since May 2014. He has also served as our shareholders representative Supervisor from March 2008 to May 2014. He has been the vice chairman of the board and president of Xinhu Zhongbao since October 2009 and was the vice president of Xinhu Zhongbao from May 2007 to October 2009. He has been the general manager of Shenyang Xinhu Real Estate Development Co., Ltd. (瀋陽新湖房地產開發有限公司) since September 2002 and served as the executive deputy manager of Zhejiang Xinhu Real Estate Group Co., Ltd. (浙江新湖房地產集團有限公司) from October 1998 to September 2002. He worked as a teacher and director of the training department at Zhejiang Provincial Government School of the Chinese Communist Party (中共浙江省省級機關黨校) from July 1986 to October 1998.

Mr. Zhao graduated from Hangzhou Normal University (formerly known as Hangzhou Normal College (杭州師範學院)) (Zhejiang, PRC) in August 1980, majoring in physics, and graduated from the Party School of the Zhejiang Committee of the Chinese Communist Party (中共浙江省委黨校) (Zhejiang, PRC), majoring in political economics in July 1986. He has been accredited as a lecturer by the Teachers' Qualification Accreditation Committee of Chinese Communist Party Zhejiang Provincial Committee (中共浙江省委教師職務評審委員會) since March 1991.

During the period when Mr. Zhao served as vice chairman and president of Xinhu Zhongbao since October 2009, Xinhu Zhongbao sold and purchased its shares in a listed company within one day on September 6, 2011, which was identified by the Shenzhen Stock Exchange as short-swing trading and therefore violated the relevant provisions of the PRC Securities Law and the listing rules of the Shenzhen Stock Exchange. The Shenzhen Stock Exchange issued a notice of criticism with regard to such incident, which only involved Xinhu Zhongbao and did not impose any liability on any member of the management of Xinhu Zhongbao (including Mr. Zhao) or any other person. Mr. Zhao has not been held responsible for such incident by the Shenzhen Stock Exchange or any other relevant securities regulatory authorities. Mr. Zhao confirmed that, during the time when the short-swing trading was conducted, he was primarily responsible for the real estate development business of Xinhu Zhongbao and had no involvement in such short-swing trading. According to the follow-up investigation carried out by Xinhu Zhongbao, such short-swing trading was due to the misoperation of its staff.

In view of the above, we are of the opinion that the short-swing trading involving Xinhu Zhongbao does not cast doubt on Mr. Zhao's integrity, and that Mr. Zhao is suitable to serve as a Director under Rules 3.08 and 3.09 of the Listing Rules.

Ms. YANG Yuhua (楊玉華), aged 51, has been appointed as a non-executive Director of our Bank since May 2014. She has been deputy manager of the financial department of Beijing Zhaotai since January 2013. Prior to that, she served as the chief financial officer at Saizhi (Tianjin) Properties Co., Ltd. (賽智(天津)置業有限公司) from June 2006 to January 2013. From December 2001 to June 2006, she served as deputy manager of the inter-bank market department and senior investment manager of the Investment Management Center of New China Life Insurance Co., Ltd. (新華人壽保險股份有限公司投資管理中心). She successively served as deputy head, head and deputy chief of the funds division and the international business division of Inner Mongolia branch of Industrial and Commercial Bank of China from August 1983 to December 2001.

Ms. Yang obtained a master's degree in finance from Shaanxi Institute of Finance and Economics (陝西財經學院) (Shaanxi, PRC) in July 1999. She has been a senior economist as accredited by the PRC Ministry of Land and Resources since May 2003.

Mr. LIU Xinfa (劉新發), aged 55, has been appointed as a non-executive Director of our Bank since June 2006 and was the vice chairman of our Bank from June 2006 to May 2014. He has been the chairman of the board at Zhongyou Tianbao since December 2000, and was the general manager of Zhongyou Tianbao from October 1996 to December 1998. Prior to that, He served as the general manager of the Multi-Operation Company of Northeast Oil Pipeline Administrative Bureau (東北輸油管理局多種經營公司) from August 1983 to October 1996. He currently is a director of a number of companies, including Tieling TIPO Petroleum Steel Pipe Co., Ltd. (鐵嶺天寶石油鋼管有限公司), Tieling Machinery & Equipment Manufacturing Co., Ltd. of CNPC (鐵嶺中油機械設備製造有限公司), Shanghai Xinfa International Terminal Co., Ltd. (上海新發國際碼頭有限公司), Beijing Baoshan Venture Commercial Trade Co., Ltd. (北京寶山創業商貿有限公司), and Grand Dynasty Hotel (北京新大宗飯店).

Mr. Liu graduated from the department of economy of Liaoning University (Liaoning, PRC) in July 1984, majoring in enterprise management and obtained a diploma of the Advanced Workshop on Leadership Skills (領導韜略高級研修班) from the school of continuing education of Tsinghua University in October 2008.

Mr. Liu has served as vice chairman of Shenyang Rural Commercial Bank Co., Ltd. (瀋陽農村商業銀行股份有限公司) ("Shenyang Rural Commercial Bank") since January 2012. Shenyang Rural Commercial Bank is a financial institution primarily engaging in commercial banking business in Shenyang. Shenyang Rural Commercial Bank engages in banking business in Shenyang, which competes with certain aspects of our business. On the basis that (i) Mr. Liu, as a non-executive director of Shenyang Rural Commercial Bank, does not participate in the daily operation and management of Shenyang Rural Commercial Bank, (ii) Shenyang Rural Commercial Bank has a management team independent of our Bank, and (iii) Mr. Liu is our non-executive Director and does not participate in our day-to-day management, we and our Directors consider that the roles of Mr. Liu acting as the vice chairman of Shenyang Rural Commercial Bank and a non-executive Director of our Bank at the same time do not have an impact on the business operation of our Bank.

Mr. Liu has undertaken to us that he will continue to comply with the requirements of Rule 8.10(2) of the Listing Rules to disclose the above-mentioned interest and any change thereof other than those disclosed in this prospectus in our annual report.

Independent Non-Executive Directors

Mr. YU Yongshun (于永順), aged 64, has been appointed as an independent non-executive Director of our Bank since May 2014. Mr. Yu has been an independent director of Cinda Securities Co., Ltd. (信達證券股份有限公司) and chairman of the supervisory board of Huaxin Trust Co., Ltd. (華信信託股份有限公司) since November 2011, and an independent non-executive director of Bank of Communications Co., Ltd. (交通銀行股份有限公司) (listed on the Hong Kong Stock Exchange, stock code: 3328; listed on the Shanghai Stock Exchange, stock code: 601328) since August 2013.

Mr. Yu has over 35 years of experience in banking business management and auditing. From April 1999 to December 2010, he successively held positions of general manager of the audit department, deputy director of the risk and internal control management committee, and chief internal auditor at China Construction Bank Corporation. Prior to that, he held various positions at China Construction Bank Corporation from September 1977 to April 1999, including chief of the integrated planning department, deputy chief of the funds planning department, chief of the real estate credit department, president and general manager of the second business department of the Xinjiang Autonomous Region branch.

Mr. Yu graduated from Dongbei University of Finance and Economics (formerly known as Liaoning Institute of Finance and Economics (遼寧財經學院)) (Liaoning, PRC) in August 1977, majoring in infrastructure finance, and obtained a master's degree from the Graduate School of Chinese Academy of Social Sciences (Beijing, PRC), in March 1998, majoring in monetary banking. He has been a senior economist as accredited by China Construction Bank Corporation since May 1993.

Mr. LAU Chi Pang (劉智鵬), aged 54, has been appointed as an independent non-executive Director of our Bank since May 2014. He has lectured at Lingnan University since September 1993 and his current position is associate professor in the history department of Lingnan University. He has also been a member of the board committee of Lingnan University since May 2014, secretary general of Hong Kong Local Records Foundations and director of Hong Kong Local Records Office (香港地方誌辦公室) since June 2009, director of the history of Hong Kong and southern China research department of Lingnan University since September 2005 and a council member of Lingnan University since October 1999. He also served as the vice chairman of the Tuen Mun District Council (屯門區議會) of Hong Kong from July 2011 to December 2011, a member of the Tuen Mun District Council from January 2004 to December 2011, during which he served as chairman of the Finance, Administration and Publicity Committee of Tuen Mun District Council from January 2008 to December 2011.

Mr. Lau received a bachelor's degree in literature from the department of Chinese studies of The University of Hong Kong (Hong Kong) in November 1984, a master's degree in philosophy from the department of Chinese studies of The University of Hong Kong (Hong Kong) in November 1987, and a doctoral degree in philosophy from the history department of University of Washington (Washington, U.S.) in August 2000.

Mr. BA Junyu (巴俊宇), aged 59, has been appointed as an independent non-executive Director since June 2010. Mr. Ba has been a professor at Shenyang Ligong University (瀋陽理工大學) since September 2001, and served as principal, professor and researcher of the social economy research institute of Shenyang Ligong University from September 2001 to May 2009. He serves as a professor at the ideological and political theory teaching and research department of Shenyang Ligong University since May 2009. Prior to that, he served as an associate professor and the head of the economic research institute at Shenyang University from April 1996 to August 2003. From August 1985 to April 1996, he served as a vice dean, deputy principal and associate professor of the market economy research institute at Shenyang Institute of Finance and Economics. He used to work at the teaching and research office at Shenyang Accounting School (瀋陽市財會學校) as deputy director, director and lecturer from August 1982 to August 1985.

Mr. Ba graduated from Dongbei University of Finance and Economics (formerly known as Liaoning Institute of Finance and Economics (遼寧財經學院)) (Liaoning, PRC) in July 1982, majoring in commercial enterprise management. He has been a researcher as accredited by the Personnel Office of Liaoning Province since August 2008.

Mr. SUN Hang (孫航), aged 48, has been appointed as an independent non-executive Director of our Bank since May 2014. He has been the principal of the Human Resources Research Institute of Liaoning Academy of Social Sciences since April 2007. Prior to that, he served as the general manager at Shenyang Yuhuang Health Products Co., Ltd. (瀋陽玉皇保健品有限公司) from March 2002 to April 2007, worked as deputy principal of the Applied Technology Research Institute of Chinese Academy of Management Science (中國管理科學研究院) from March 1998 to March 2002, and was a deputy director staff at the enterprise department of Changchun Industry and Commerce Association and manager of Xunda Motorcycle Co., Ltd. (迅達摩托車公司) from October 1988 to March 1998.

Mr. Sun graduated from Anhui University of Finance & Economics (formerly known as Anhui Institute of Finance & Economics) (安徽財貿學院) (Anhui, PRC) in July 1988, majoring in merchandising. He has been a senior economist as accredited by the Personnel Office of Liaoning Province since December 2001, and a researcher as accredited by the Department of Human Resources and Social Security of Liaoning Province since September 2011.

Mr. DING Jiming (丁繼明), aged 50, has been appointed as an independent non-executive Director of our Bank since May 2014. He has been general manager of Beijing Zhongrunda Engineering and Consulting Co., Ltd. (北京中潤達工程諮詢有限公司) since June 1999. Prior to that, he worked as a director staff at the Liaoning Office of the PRC Ministry of Finance from July 1986 to June 1999.

Mr. Ding graduated from Anshan University (Liaoning, PRC) in July 1986, majoring in industrial accounting, and received a master's degree in finance from the Graduate School of Chinese Academy of Social Sciences (中國社會科學院研究生院) (Beijing, PRC) in December 1997. He has been a certified public accountant as accredited by the PRC Ministry of Finance since October 1998, and an asset appraiser as accredited by the PRC Ministry of Finance since August 2006.

SUPERVISORS

The PRC Company Law requires a joint stock company to establish a board of supervisors that is responsible for supervising the actions of the board and senior management and monitoring financial matters. Our Board of Supervisors consists of nine Supervisors, including three employee representative Supervisors, three shareholder representative Supervisors and three external Supervisors. Our Supervisors are elected for a term of three years and may be subject to reelection, 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	Position	Responsibility
Mr. YANG Lin (楊林)	53	March 1987	February 28, 2008 (November 3, 2008[1])	employee representative Supervisor	Supervising the Board and senior management
Mr. HAN Xuefeng (韓學豐)	44	September 1997	May 21, 2010	employee representative Supervisor	Supervising the Board and senior management
Mr. SHI Yang (石陽)	49	March 1987	June 11, 2014	employee representative Supervisor	Supervising the Board and senior management
Mr. CHEN Zhaogui (陳招貴)	57	June 2006	May 30, 2014	shareholder representative Supervisor	Supervising the Board and senior management
Mr. PAN Wenge (潘文戈)	48	May 2014	May 30, 2014	shareholder representative Supervisor	Supervising the Board and senior management

Name	Age	Time of joining our Bank	Date of appointment	Position	Responsibility
Ms. SUN Yi (孫奕)	60	March 2013	May 30, 2014	shareholder representative Supervisor	Supervising the Board and senior management
Mr. HUANG Liangkuai (黃良快)	72	May 2014	May 30, 2014	external Supervisor	Supervising the Board and senior management
Mr. ZHOU Zheren (周喆人)	37	May 2014	May 30, 2014	external Supervisor	Supervising the Board and senior management and responsible for the Supervisory Board Supervision Committee
Mr. WEN Zhaoye (溫兆曄)	40	May 2014	May 30, 2014	external Supervisor	Supervising the Board and senior management and responsible for the Supervisory Board Nomination Committee

Note:

(1) The date on which Mr. Yang obtained the approval of qualification of chairman of Board of Supervisors from the CBRC Liaoning Bureau.

Mr. YANG Lin (楊林), aged 53, has been appointed as an employee representative Supervisor of our Bank since February 2008 and chairman of our Board of Supervisors since March 2008.

Mr. Yang joined the Shenhe Credit Cooperative of Shenyang Cooperative Bank, our predecessor, in March 1987 and has held a number of positions in our Bank since then. From March 1987 to February 2002, he successively worked as a credit clerk of the Shenhe Credit Cooperative and vice president of the Baogong Credit Cooperative of Shenyang Cooperative Bank, deputy director of business department and deputy chief of the credit and loan division of Shenyang Cooperative Bank, (managing) deputy general manager and general manager of the asset security department of our Bank. From February 2002 to March 2008, he served as a vice president of our Bank.

Mr. Yang graduated from the Party School of the Shenyang Committee of the Chinese Communist Party (中共瀋陽市委黨校) (Liaoning, PRC) in May 1997, majoring in finance and accounting, and graduated from Jilin Polytechnical University (吉林工業大學) (Jilin, PRC) in November 2000, majoring in business administration. He has been a senior economist as accredited by the Personnel Office of Liaoning Province since September 2001.

Mr. HAN Xuefeng (韓學豐), aged 44, has been appointed as an employee representative Supervisor of our Bank since May 2010, and vice chairman of our Board of Supervisors since June 2014. He has also been deputy secretary to the discipline committee and chief of the party committee department of our Bank since January 2012, and chief of our human resources department since April 2014. He is primarily responsible for management of human resources.

Mr. Han joined the Huashan Sub-branch of our Bank in September 1997 and has held a number of positions in our Bank since then. From September 1997 to January 1998, he successively worked as deputy director of the office and manager of the market development department of the Huashan Sub-branch of our Bank. From January 1998 to October 2009, he successively worked at our Bank as secretary to the president's office, chief of the secretarial section, assistant to director of the discipline supervision and inspection office, deputy director of the discipline supervision and inspection office, and deputy director of the president's office. From October 2009 to January 2012, he successively served as managing deputy director of the inspection office, director of the president's office and first deputy chief of the party committee department at our Bank.

Mr. Han graduated from Liaoning University (Liaoning, PRC) in July 2004 (correspondence education), majoring in law. He has been a senior administrative officer (高級政工師) as accredited by the Leading Work Group Office of Appraisal for the Professionalism of Ideological and Political Officers of Enterprises in Liaoning Province (遼寧省企業思想政治工作人員專業職務評定工作領導小組辦公室) since July 2012.

Mr. SHI Yang (石陽), aged 49, has been appointed as an employee representative Supervisor of our Bank since June 2014. He has also served as president of our Yuhong Sub-branch in Shenyang since July 2008 and served as director of the preparatory office of our Dandong Branch since January 2014. He joined the Huigong Credit Cooperative, one of our predecessors, in March 1987 and has held a number of positions in our Bank (including its predecessors) since then. From March 1987 to April 1992, he successively worked as a credit clerk of the Huigong Credit Cooperative and a credit clerk at the credit and loan division of the headquarters. From April 1992 to February 2000, he served as vice president of our Tiexi Sub-branch. From February 2000 to January 2003, he held the positions of assistant to the president and vice president of our Yuanlu Sub-branch. From January 2003 to July 2008, he served as vice president of our Yuhong Sub-branch.

Mr. Shi graduated from the Party School of the Liaoning Committee of the Chinese Communist Party (中共遼寧省委黨校) (Liaoning, PRC) in March 1997, majoring in economic management, and obtained a diploma of post-graduation study in political economics from Northeast Normal University (Liaoning, PRC) in December 2000. He has been a senior economist as accredited by the Department of Human Resources and Social Security of Liaoning Province since September 2009.

Mr. CHEN Zhaogui (陳招貴), aged 57, has been appointed as a shareholder representative Supervisor of our Bank since May 2014. He also served as a director of our Bank from June 2006 to May 2014. He has been chairman of Shanghai Changxin (Group) Co., Ltd. (上海昌鑫(集團)有限公司) since June 1994. Prior to joining Shanghai Changxin (Group) Co., Ltd., Mr. Chen worked as a project manager at the Shanghai branch office of Zhejiang Wenling Second Construction and Engineering Co., Ltd. (浙江溫嶺市第二建築工程公司) from January 1986 to June 1994.

Mr. Chen graduated from China University of Geosciences (中國地質大學) (Beijing, PRC) through online-based education in July 2007, majoring in civil engineering. He has been a senior engineer as accredited by Huanggang Professional Title Reform Office (黃岡職改辦) since July 2005.

Mr. PAN Wenge (潘文戈), aged 48, has been appointed as a shareholder representative Supervisor of our Bank since May 2014. Mr. Pan has been the chief financial officer of Luenmei Holding Co., Ltd. (聯美控股股份有限公司, listed on the Shanghai Stock Exchange, stock code: 600167) since November 2009. Prior to that, he held the position of deputy chief financial officer at Luenmei (China) Investment Co., Ltd. (聯美(中國)投資有限公司) from May 2007 to November 2009. From May 2000 to May 2007, he worked at Huaxia Bank, where he successively served as deputy general manager of the financing center of Shenyang branch, general manager of the business department of Shenyang branch, president of Shenyang Beizhan sub-branch and Shenyang Zhongshan Square sub-branch.

Mr. Pan graduated from Dongbei University of Finance and Economics (formerly known as Liaoning Institute of Finance and Economics (遼寧財經學院)) (Liaoning, PRC) in July 1988, majoring in finance and accounting, and a master's degree in applied psychology from Liaoning Normal University (Liaoning, PRC) in July 2002. He has been an accountant as accredited by the Personnel Office of Liaoning Province since October 1994.

Ms. SUN Yi (孫奕), aged 60, has been appointed as a shareholder representative Supervisor of our Bank since May 2014 and served as a Director of our Bank from March 2013 to May 2014. She has been the vice president of Jilin Huahai Energy Group Co., Ltd. (吉林華海能源集團有限公司) since December 2013. Prior to that, she worked at Jilin Huahai Energy Group Co., Ltd. as deputy manager and manager of the accounting department successively from April 1999 to December 2013. She served as director of the accounting department of Jilin Petroleum and Natural Gas Development Co., Ltd. (吉林石油天然氣開發有限責任公司) from June 1996 to April 1999.

Ms. Sun graduated from Jilin University of Finance and Economics (formerly known as Changchun Institute of Taxation (長春稅務學院)) (Jilin, PRC) in June 1994, majoring in accounting. She has been a certified public accountant as accredited by the PRC Ministry of Finance since October 2003.

Mr. HUANG Liangkuai (黃良快), aged 72, has been appointed as an external Supervisor of our Bank since May 2014. He has been the chief representative of the Shenzhen Research Institute of Xiamen University (廈門大學深圳研究院) and vice chairman of Xiamen University Alumni General Association since August 1999. From November 1984 to December 1998, he served as chief of the general affairs division, chief of the assets division and vice chairman of the alumni association at Xiamen University. He was the secretary to the party committee of the school of economics at Xiamen University from September 1979 to October 1984.

Mr. Huang graduated from the department of economics of Xiamen University (Fujian, PRC) in August 1966, majoring in statistics.

Mr. Huang acted as the chairman of Beijing Kaixuan Investment Management Co., Ltd. (北京凱旋投資管理有限公司) from February 6, 2007 to December 17, 2010. This company was established in China and had no substantial business operations upon its establishment and its business license was revoked by the competent company registration authority on December 17, 2010 due to the failure to conduct annual inspection. Mr. Huang confirmed that he was not involved in the actual operation of the company and has not assumed any contingent liabilities nor has he been subject to any relevant claims as a result of the revocation of the business license of the aforesaid company.

Mr. ZHOU Zheren (周喆人), aged 37, has been appointed as an external Supervisor of our Bank since May 2014. He has been an independent director of Kangxin (China) Design and Engineering Co., Ltd. (康新(中國)設計工程股份有限公司) since June 2010 and a lawyer at Shanghai Kyodo Law Firm (上海共同綜合律師事務所) since April 2014.

Prior to that, he served as an executive director of both Shanghai Sky Fortune Hotel Co., Ltd. (上海天禧嘉福璞緹客酒店有限公司) and Shanghai Youyi Commerce Co., Ltd. (上海優怡商業有限公司) from July 2009 to March 2014. From January 2009 to June 2009, he served as a director and general manager of Shenyang Hejin Holding Co., Ltd. (瀋陽合金投資股份有限公司) (listed on Shenzhen Stock Exchange, stock code: 000633). Mr. Zhou previously work as a lawyer at Shanghai International Economic & Trade Law Office (上海市國茂律師事務所) from September 1999 to December 2008, where he was promoted to become a partner in January 2004.

Mr. Zhou received a bachelor's degree in international economic laws from East China University of Politics and Law (華東政法大學, formerly known as East China College of Political Science and Law (華東政法學院)) (Shanghai, PRC) in July 1999 and a master's degree in laws from the University of Technology (Sydney, Australia) in September 2004. He has been a qualified PRC lawyer upon the approval from the Review Committee of Lawyer Qualification under the PRC Ministry of Justice (中華人民共和國司法部律師資格審查委員會) since February 2000. He is also qualified to act as an independent director in PRC-listed companies as recognized by Shanghai Stock Exchange in November 2010.

Mr. WEN Zhaoye (溫兆曄), aged 40, has been appointed as an external Supervisor of our Bank since May 2014. In addition, he has been chairman of Beijing Blue Pivot Advertising Co., Ltd. (北京藍色支點廣告有限公司) since May 2001, president of Sooxue (搜學網) since June 2004, chairman of Beijing Lingzhi Tongcheng Educational Technology Co., Ltd. (北京淩志通成教育科技有限公司) since April 2005, vice chairman and secretary general of the China Real Estate Designer Association (中國房地產策劃師聯誼會) since December 2008, and chairman of Beijing Zhongfang Zhiye Management Consulting Co., Ltd. (北京中房智業管理諮詢有限公司) since June 2010.

Mr. Wen graduated from China Science Technology Management University (中國科技經營管理大學) in July 2000, majoring in English.

SENIOR MANAGEMENT

The following table sets out certain information regarding our senior management:

Name	Age	Time of joining our Bank	Date of appointment[1]	Position	Responsibility
Mr. WANG Chunsheng (王春生)	53	September 1997	August 9, 2013 (December 3, 2013)	President	Overseeing our business development and the overall management of our business and operations
Mr. ZHAO Guangwei (趙光偉)	50	October 1987	March 29, 2008 (July 1, 2008)	Vice president	Participating in the management of our financial market operation center, compliance department and the business department of the headquarter, and taking charge of matters relating to our county banks
Mr. HU Guang (胡光)	55	December 1987	September 20, 2010 (February 15, 2011)	Chief internal auditor	Participating in the management of our inspection office, internal audit department and security department, and taking charge of the internal audit of our Bank
Mr. WANG Yigong (王亦工)	48	June 1998	January 16, 2013 (May 8, 2013)	Vice president and chief risk officer	Participating in the management of our risk control center, international banking department, legal department and development strategies research center, and taking charge of the matters relating to risk control
Mr. WU Gang (吳剛)	44	June 1989	January 16, 2013 (June 8, 2013)	Vice president	Assisting in the management of the corporate business of our Bank and responsible for the operation and management of our Beijing Branch
Mr. SUN Yongsheng (孫永生)	54	September 1997	June 20, 2014 (September 18, 2014)	Vice president	Participating in the management of our retail business department and consumer interest protection department
Mr. ZHANG Yi (張翼)	44	September 1988	August 9, 2013 (March 24, 2014)	Chief information officer	Participating in the management of our information technology department

Name	Age	Time of joining our Bank	Date of appointment[1]	Position	Responsibility
Mr. BAO Hong (包宏)	42	August 1992	August 9, 2013 (December 3, 2013)	Secretary to the Board	Participating in the management of matters relating to information disclosure of our Bank, coordinating investors relationship, preparing for shareholders' general meetings and board meetings in accordance with statutory procedures
Mr. LIU Zhiyan (劉志岩)	54	May 1987	June 20, 2014 (September 18, 2014)	Chief financial officer	Participating in the management of our planning and accounting management department

Note:

(1) The dates in brackets represent the time when the relevant members of senior management obtained approvals of senior management qualifications from the CBRC Liaoning Bureau.

For the biography of **Mr. WANG Chunsheng (王春生)**, please refer to "Executive Directors" in this section.

For the biography of **Mr. ZHAO Guangwei (趙光偉)**, please refer to "Executive Directors" in this section.

Mr. HU Guang (胡光), aged 55, has been appointed as the chief internal auditor of our Bank since September 2010, and is primarily in charge of our inspection office, internal audit department and security department and responsible for the internal audit of our Bank. He has also held the positions of secretary to discipline inspection committee since November 2011 and secretary to the party committee of our Shenyang Branch since January 2014. Besides, Mr. Hu worked as a Director of our Bank from June 2010 to May 2014, and concurrently served as president of our Shenyang Branch from January 2013 to January 2014.

Mr. Hu has over 30 years of experience in banking business operation and management. He joined Shenyang Cooperative Bank, our predecessor, in December 1987. From December 1987 to April 1991, he worked at the internal audit division of Shenyang Cooperative Bank. From April 1991 to April 1995, he became vice president of the Baogong City Credit Cooperative of Shenyang Cooperative Bank. From April 1995 to February 1999, he served as vice president of our Hongxia Sub-branch (including its predecessor, the Hongxia City Credit Cooperative of Shenyang Cooperative Bank). From February 1999 to January 2002, he served as vice president of our Xianggong Sub-branch. From January 2002 to January 2009, he successively worked as (managing) vice president and president of our Hemu Road Sub-branch. From January 2009 to March 2009, he concurrently worked as president of our Yaming Sub-branch and president of our Faku Sub-branch. From March 2009 to July 2010, he concurrently worked as deputy chief internal auditor and general manager of the internal audit department of our Bank. Prior to joining our Bank, he worked at the Shenyang Branch of the PBOC from October 1980 to December 1987.

Mr. Hu graduated from Liaoning Finance Staff College (遼寧省金融職工大學) (Liaoning, PRC) in August 1991, majoring in finance (correspondence education), and received a master's degree in international trade from Dongbei University of Finance and Economics (formerly known as Liaoning Institute of Finance and Economics (遼寧財經學院)) (Liaoning, PRC) in July 2004. He has been a senior economist as accredited by the Department of Human Resources and Social Security of Liaoning Province since September 2010.

For the biography of **Mr. WANG Yigong (王亦工)**, please refer to "Executive Directors" in this section.

For the biography of **Mr. WU Gang (吳剛)**, please refer to "Executive Directors" in this section.

Mr. SUN Yongsheng (孫永生), aged 54, has been appointed as a vice president of our Bank since June 2014. He has also worked as the managing vice chairman of the labor union and the director of the president's office of our Bank since January 2014. He is primarily in charge of our retail business department and consumer interest protection department.

Mr. Sun has over 20 years of experience in banking business operation and management. He joined the Huashan Sub-branch of our Bank in September 1997. From September 1997 to July 2006, he successively served as president of the Huashan Sub-branch of our Bank and president of our Binhe Sub-branch. He held the positions of general manager of the business department and (managing) deputy general manager of Shenyang operation and administration department of our Bank from July 2006 to February 2012, during which he also worked as president of our Shenhe Sub-branch from January 2010 to February 2012. From February 2012 to January 2013, he served as director of the president's office and director of the board's office at our Bank. From January 2013 to January 2014, he worked as president of our Shanghai Branch. From January 2014 to July 2014, he served as general manager of the retail business department of our Bank. Prior to joining our Bank, he worked successively as an administrative accountant, deputy chief of the general affairs division, chief of the accounting division at Liaoning Financial Vocational College (遼寧金融職業學院, formerly known as 遼寧省金融職工大學) and general manager of Shenyang Huashan Credit Cooperative from August 1983 to August 1997.

Mr. Sun graduated from Liaoning University (Liaoning, PRC) in June 2000, majoring in administrative management, and obtained a diploma of post-graduate study in political economics from Dongbei Normal University (Jilin, PRC) in July 2002. He has been a senior accountant as accredited by the Personnel Office of Liaoning Province since September 2002.

Mr. ZHANG Yi (張翼), aged 44, has been appointed as the chief information officer of our Bank since August 2013 and the general manager of our information technology department since April 2000. He is in charge of our information technology department.

Mr. Zhang has over 25 years experience and extensive knowledge in information technology industry and financial industry. He joined Shenyang Cooperative Bank, our predecessor, in September 1988, and has held a number of positions at our Bank (including Shenyang Cooperative Bank) since then. From September 1988 to May 1991, he was an office staff member at Shenyang Cooperative Bank. From June 1991 to July 1997, he worked as a staff member and chief of the accounting and computer department at Shenyang Cooperative Bank. From August 1997 to March 2000, he served as deputy (managing) general manager of the information and technology department at our Bank.

Mr. Zhang graduated from Shenyang Ligong University (Liaoning, PRC) in July 2004, majoring in business management, and received a master's degree in software engineering from Dalian University of Technology (Liaoning, PRC) in July 2008. He has been an engineer as accredited by the Personnel Office of Liaoning Province since September 2003.

Mr. Zhang used to act as the legal representative of Shenyang Rongjin Technology and Services Co., Ltd. (瀋陽市融金科技服務有限公司), a company incorporated in the PRC. During Mr. Zhang's term of office, the business license of the company was revoked by the relevant registration authority on July 6, 2000 as the company had no substantial business operations upon its establishment and failed to conduct annual inspection. Mr. Zhang confirmed that he has not assumed any contingent liabilities nor has he been subject to any relevant claims as a result of the revocation of the business license of the aforesaid company.

Mr. BAO Hong (包宏), aged 42, has been appointed as the secretary to the Board of our Bank since August 2013. During the period from September 2009 to April 2012, he served as the director of our board's office and has continued to hold this position since January 2013. He is primarily in charge of matters relating to our Bank's information disclosure, coordinating investors relationship, and preparing for shareholders' general meetings and board meetings in accordance with statutory procedures.

Mr. Bao has over 20 years of experience in banking business operation and management. He joined Shenyang Cooperative Bank, our predecessor, in August 1992. From August 1992 to October 2003, he successively worked as an accountant at the business department, supervisor of the accounting department, assistant to the general manager and deputy general manager of the accounting department at our Bank (including its predecessor). From November 2003 to December 2008, he successively held the positions of vice president of our Baogong Sub-branch, vice president of our Huangsi Sub-branch and vice president of our Binhe Sub-branch. From January 2009 to January 2014, he successively worked as deputy (managing) director of our board's office, managing vice president of our Beijing Branch, vice president of our Shenyang Branch, director of our board office and director of our president's office. He also served as our chief financial officer from April 2010 to May 2014.

Mr. Bao graduated from Northeastern University (Liaoning, PRC) in September 1997, majoring in accounting, and received a master's degree in business administration from Coventry University (Coventry, U.K.) in November 2002, majoring in finance. He has been a senior accountant as accredited by the Personnel Office of Liaoning Province since September 2005.

Mr. LIU Zhiyan (劉志岩), aged 54, has been appointed as the chief financial officer of our Bank since June 2014, and the general manager of the planning and accounting management department of our Bank since April 2009. He is primarily in charge of our planning and accounting management department. He also served as our Supervisor from September 2010 to May 2014.

Mr. Liu has over 30 years of experience in banking business operation and management. He joined the Heping Credit Cooperative of Shenyang Cooperative Bank, our predecessor, in May 1987. From May 1987 to October 1998, he successively served as deputy director and (managing) deputy chief of the accounting department of our Bank (including the Heping Credit Cooperative of Shenyang Cooperative Bank). From November 1998 to March 2009, he successively held the positions of chief of the accounting department of our Bank, president of our Yinhe Sub-branch, general manager of the credit card center and general manager of the audit department of our Bank. Before joining our Bank, he used to work at Industrial and Commercial Bank of China and served as deputy director of the Beishi local branch, deputy director of the Zhongshan Square local branch and deputy director of Hongxia Credit Cooperative from June 1984 to April 1987.

Mr. Liu graduated from the Open University of China (formerly known as China Central Radio and TV University) (Beijing, PRC) in June 2003, majoring in finance. He has been an accountant as accredited by the Personnel Office of Liaoning Province since November 1993.

All our Directors, Supervisors and members of senior management meet the relevant CBRC qualification requirements for their respective positions. For those whose appointments require approval by the CBRC, the approvals have been duly obtained.

JOINT COMPANY SECRETARIES

Mr. BAO Hong (包宏), aged 42, is one of the joint company secretaries of our Bank and was appointed in June 2014. Please refer to his biography under the paragraph headed "Senior Management" in this section.

Ms. KWONG Yvonne Yin Ping (鄺燕萍), aged 59, is one of the joint company secretaries of our Bank and was appointed in June 2014 with her appointment taking effect on the Listing Date.

Ms. Kwong has extensive experience in providing company secretarial and compliance services to numerous private and listed companies. She is a vice president of SW Corporate Services Group Limited, a company focusing on the provision of listing company secretarial and compliance services. She currently serves as the company secretary or joint company secretary of several companies listed on the Hong Kong Stock Exchange.

Ms. Kwong received a bachelor's degree in accounting from Hong Kong Polytechnic University in November 1997. She has been a fellow of The Hong Kong Institute of Chartered Secretaries and a fellow of The Institute of Chartered Secretaries and Administrators since 2012.

COMMITTEES UNDER THE BOARD OF DIRECTORS

Our Bank currently has the following committees under the Board: a strategic development committee, an audit committee, a related party transactions control committee, a risk control committee and a nomination and remuneration committee. The committees operate in accordance with their respective terms of reference established by our Board.

Strategic Development Committee

Our Bank has established the strategic development committee with written terms of reference. The strategic development committee consists of seven Directors, being Ms. Zhang Yukun, Mr. Li Yuguo, Mr. Zhao Weiqing, Ms. Yang Yuhua, Mr. Liu Xinfa, Mr. Wang Chunsheng and Mr. Wu Gang. The chairperson of the strategic development committee is Ms. Zhang Yukun. The primary duties of the strategic development committee include the following:

- reviewing, and providing advice to the Board on our mid- and long-term development strategies;
- supervising and assessing the implementation of our development strategies;
- reviewing, and providing advice to the Board on, the annual budget and final accounts;
- supervising and inspecting the implementation of annual operation plans and investment plans;
- reviewing the strategic capital allocation (capital structure, capital adequacy ratio, etc.) and the objectives of assets and liabilities management;
- reviewing our plans for establishment of branches and sub-branches, material investment and financing, disposal of assets, mergers and acquisitions, etc.;
- inspecting and assessing the integrity of our corporate governance structure; and
- reviewing our information technology strategic plan and annual business continuity management plan.

Audit Committee

Our Bank 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. Ding Jiming, Mr. Yu Yongshun, Mr. Lau Chi Pang, Mr. Li Jianwei and Mr. Li Yuguo. The chairman of the audit committee is Mr. Ding Jiming. The primary duties of the audit committee include the following:

- examining the risks and compliance status, accounting policies, financial reporting procedures and financial position of our Bank, auditing the financial information of our Bank, including the integrity of our financial statements and annual report and accounts, interim report (if prepared for publication) and quarterly reports (if prepared for publication), and reviewing significant financial reporting judgments contained in such statements and reports;

- making recommendations to the Board on the appointment, reappointment or removal of the external auditor, and reviewing the fees and terms of engagement of the external auditor;

- examining and supervising the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

- formulating and implementing policies on engaging an external auditor to provide non-audit services;

- reviewing the external auditor's letter to the management, any material queries raised by the external auditor to the management about accounting records, financial accounts or systems of control and management's response;

- acting as the key representative body for overseeing our relations with the external auditor, taking charge of the communication between internal and external auditors, and ensuring coordination between the internal and external auditors;

- being in taking charge of the annual audit work of our Bank;

- ensuring that the internal audit function is adequately resourced;

- reviewing our financial reporting system, internal control system and their implementation;

- discussing the internal control system with management to ensure that management has performed its duty to establish an effective internal control system; and

- conducting supervision on our anti-money laundering efforts.

Related Party Transactions Control Committee

Our Bank has established a related party transactions control committee with written terms of reference. The related party transactions control committee consists of five Directors, being Mr. Ba Junyu, Mr. Wang Chunsheng, Mr. Sun Hang, Mr. Ding Jiming and Mr. Li Jianwei. The chairman of the related party transactions control committee is Mr. Ba Junyu. The primary duties of the related party transactions control committee include the following:

- identifying related parties of our Bank and reporting to the Board and the Board of Supervisors, and notifying relevant departments of our Bank of the related parties identified;
- conducting review of related party transactions subject to review by the Board and submitting such related party transactions to the Board for review, or reviewing the related party transaction within its scope of authority;
- supervising related party transactions conducted by our Bank; and
- reviewing our annual related party transactions and the plan for related party transactions control, and submitting the findings to the Board for review.

Risk Control Committee

Our Bank has established a risk control committee with written terms of reference. The risk control committee consists of five Directors, being Mr. Yu Yongshun, Mr. Wang Yigong, Mr. Ba Junyu, Mr. Zhao Weiqing and Mr. Zhao Guangwei. The chairman of the risk control committee is Mr. Yu Yongshun. The primary duties of the risk control committee include the following:

- ensuring the effectiveness of our risk management system and that the risks faced by our business are under control;
- reviewing and amending our policies and reports of risk management, and conducting supervision and evaluation on its implementation in accordance with our general strategy;
- conducting regular review of the risk report submitted by senior management;
- ensuring that necessary measures are adopted by senior management to identify, evaluate, measure, detect, control and mitigate risks;
- reviewing and approving our compliance policies, conducting regular review of the compliance risk report submitted by the senior management, and supervising the implementation of the compliance policies; and
- conducting regular review of our information technology risk management report and our business continuity assessment report.

Nomination and Remuneration Committee

Our Bank has established the nomination and remuneration committee with written terms of reference in compliance with the requirements under the Listing Rules. The nomination and remuneration committee consists of five Directors, being Mr. Sun Hang, Ms. Zhang Yukun, Mr. Lau Chi Pang, Mr. Ba Junyu and Ms. Yang Yuhua. The chairman of the committee is Mr. Sun Hang. The primary duties of the nomination and remuneration committee include the following:

Duties of nomination:

- reviewing the structure, size and composition of the Board annually, and making proposals to the Board;
- studying and formulating the criteria and procedures for selecting directors and senior management members;
- identifying qualified candidates for directors and senior management members, and making recommendations to the Board;
- conducting the preliminary examination of qualifications of candidates for directorships and senior management positions, and making recommendations to the Board on the selection;
- assessing the independence of independent non-executive directors;

Duties of appraisal for remuneration:

- studying and formulating the criteria for appraising directors and senior management members of our Bank, conducting the appraisal, and making proposals to the Board;
- reviewing our policy and system of remuneration management, formulating the appraisal, remuneration and incentive plans for directors and senior management members, making recommendations to the Board, and supervising the implementation of relevant policy, system and plans;
- reviewing and approving the management's remuneration proposals with reference to the corporate goals and objectives formulated by the Board;
- confirming remuneration for executive directors and senior management members under the Board's authorization, or making recommendations to the Board on remuneration for executive directors and senior management members;
- making recommendations to the Board on the remuneration of non-executive directors;

- reviewing and approving any compensations payable to executive directors and senior management members for their losses or terminations of office or appointments to ensure that such compensations are consistent with contractual terms, or are otherwise fair and not excessive;

- reviewing and approving compensation arrangements relating to dismissal or removal of any director for his misconduct to ensure that such arrangements are consistent with contractual terms, or are otherwise reasonable and appropriate; and

- ensuring that neither director nor any of his associates is involved in deciding his own remuneration.

COMMITTEES UNDER THE BOARD OF SUPERVISORS

In addition to the above committees under the Board, our Bank has also established two committees under our Board of Supervisors: a supervision committee and a nomination committee. The committees operate in accordance with terms of reference established by our Board of Supervisors.

Supervision Committee

The supervision committee consists of five Supervisors, being Mr. Yang Lin, Mr. Shi Yang, Ms. Sun Yi, Mr. Pan Wenge and Mr. Zhou Zheren. The chairman of the supervision committee is Mr. Zhou Zheren. The primary duties of the supervision committee include the following:

- drafting specific plans on supervising and examining our Bank's financial activities, operating decisions, internal control and risk management with the authorization of the Board of Supervisors and based on the needs, submitting them to the Board of Supervisors for consideration and implementing such plans upon approval;

- reviewing and providing advice to the Board of Supervisors on our Bank's annual financial report, annual audit report, profit allocation plan formulated by the Board, etc.; and

- when becoming aware of any unusual operating condition of our Bank, or upon the occurrence of significant contingencies or major risk events, formulating investigation plans according to the decision of the Board of Supervisors, and if necessary, organizing relevant staff or engaging intermediaries such as accounting firms and law firms for assistance.

Nomination Committee

The nomination committee consists of five Supervisors, being Mr. Yang Lin, Mr. Han Xuefeng, Mr. Chen Zhaogui, Mr. Huang Liangkuai and Mr. Wen Zhaoye. The chairman of the nomination committee is Mr. Wen Zhaoye. The primary duties of the nomination committee include the following:

- providing advice to our Board of Supervisors on the composition and members of our Board of Supervisors based on our Bank's operational and management status, total asset value and shareholding structure;
- researching the procedures and criteria for selecting supervisors, conducting preliminary review on the qualifications of supervisor candidates, and providing advice to our Board of Supervisors;
- seeking qualified supervisor candidates;
- supervising the procedures for selection and appointment of directors;
- conducting comprehensive evaluation on the work performance of directors, supervisors and members of senior management and reporting to the Board of Supervisors; and
- supervising the scientificalness and reasonableness of the remuneration management system and policies of the whole Bank and the remuneration packages for the members of senior management.

COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Our Bank offers our executive Directors, employee representative Supervisors and senior management members, who are also employees of our Bank, compensation in the form of salaries, bonuses, social security plans, housing provident fund plans and other benefits. Our independent non-executive Directors and external Supervisors receive compensation based on their responsibilities.

The aggregate amounts of pre-tax remuneration paid by us to our Directors and Supervisors for the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014 were approximately RMB20.63 million, RMB22.33 million, RMB22.36 million and RMB7.09 million, respectively.

The aggregate amounts of pre-tax remuneration paid by us to our five highest paid individuals for the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014 were approximately RMB12.91 million, RMB13.54 million, RMB12.88 million and RMB4.19 million, respectively.

It is estimated that pre-tax remuneration equivalent to approximately RMB23.11 million in aggregate will be paid to the Directors and Supervisors by our Bank in 2014 based on the arrangements in force as of the date of this prospectus.

No remuneration was paid to the Directors, Supervisors or the five highest paid individuals of our Bank as an inducement to join, or upon joining, our Bank. No compensation was paid to, or is receivable by, our Directors or past Directors during the Track Record Period for the loss of office as director of our Bank or of any other offices in connection with the management of the affairs of our Bank. None of the Directors of our Bank waived any emoluments during the same period.

Except as disclosed above, no other payments have been paid or are payable, in the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, respectively, by us to the Directors.

DIRECTORS' AND SUPERVISORS' INTEREST

Except as disclosed in this prospectus, each of the Directors and Supervisors: (i) did not hold other positions in our Bank as of the Latest Practicable Date; (ii) had no other relationship with any Directors, senior management or substantial shareholder or controlling shareholder of our Bank as of the Latest Practicable Date; and (iii) did not hold any other directorship in listed companies in the three years prior to the Latest Practicable Date. Please refer to Appendix VII – "Statutory and General Information" for our Directors' and Supervisors' interests in the Domestic Shares within the meaning of Part XV of the SFO.

Except as disclosed herein, none of our Directors is interested in any business, apart from our business, which competes or is likely to compete, either directly or indirectly, with our business under Rule 8.10(2) of the Listing Rules.

Except as disclosed herein, to the best of the knowledge, information and belief of our Directors and Supervisors, having made all reasonable enquiries, there was no additional matter with respect to the appointment of our Directors or Supervisors that needs to be brought to the attention of the shareholders and there was no additional information relating to our Directors or Supervisors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as of the Latest Practicable Date.

COMPLIANCE ADVISOR

Our Bank has appointed CMB International Capital Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, 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 different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and

- where the Hong Kong Stock Exchange makes an inquiry of our Bank regarding unusual movements in the price or trading volume of our H Shares, the possible development of a false market in our H Shares or any other matters.

The terms of the appointment of the compliance advisor will commence on the Listing Date and end on the date when we distribute the annual report of the financial results of our Bank for the first full financial year commencing after the Listing Date.

As of the Latest Practicable Date, our share capital was RMB4,396,005,200 comprising 4,396,005,200 Domestic Shares and the following persons directly or indirectly control, or are entitled to exercise, or control the exercise of, 5% or more of our Domestic Shares:

Name of Shareholder	No. of Shares directly or indirectly held	Approximate percentage of share capital
Shenyang Hengxin	480,000,000	10.92%
Huibao International	400,000,000	9.10%
Xinhu Zhongbao	300,000,000	6.82%
Founder Securities	300,000,000	6.82%
Beijing Zhaotai	300,000,000	6.82%
Zhongyou Tianbao	230,000,000(1)	5.23%

Note:

(1) As of the Latest Practicable Date, the 230,000,000 Shares held by Zhongyou Tianbao are subject to attachment and/or freezing orders of PRC courts as a result of debt disputes and during the period of such attachment and/or freezing, no transfer or alteration of registration of such Shares shall occur.

Immediately following the completion of the Global Offering:

- assuming the Over-Allotment Option is not exercised, our share capital will comprise 4,271,005,200 Domestic Shares and 1,375,000,000 H Shares, representing 75.65% and 24.35% of the total share capital of our Bank, respectively; and

- assuming the Over-Allotment Option is fully exercised, our share capital will comprise 4,252,255,200 Domestic Shares and 1,581,250,000 H Shares, representing 72.89% and 27.11% of the total share capital of our Bank, respectively.

So far as our Directors are aware, immediately following the completion of the Global Offering, the following persons will have an interest or a short position in our Shares or underlying shares of our Bank 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 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	Number of Shares directly or indirectly held	Approximate % of interest in our Bank	Approximate % of the relevant class of Shares of our Bank	Number of Shares directly or indirectly held	Approximate % of interest in our Bank	Approximate % of the relevant class of Shares of our Bank
Shenyang Hengxin	Beneficial owner	Domestic Shares	479,853,940	8.50%	11.24%	479,832,029	8.23%	11.28%
Shenyang Industrial Investment Development Group Co., Ltd. (瀋陽產業投資發展集團有限公司)	Interest of a controlled corporation	Domestic[(1)] Shares	479,853,940	8.50%	11.24%	479,832,029	8.23%	11.28%
Huibao International	Beneficial owner	Domestic Shares	400,000,000	7.08%	9.37%	400,000,000	6.86%	9.41%
Beijing Jiutai Group Co., Ltd. (北京九台集團有限公司)	Interest of a controlled corporation	Domestic[(2)] Shares	400,000,000	7.08%	9.37%	400,000,000	6.86%	9.41%
Li Yuguo (李玉國)	Interest of a controlled corporation	Domestic[(2)] Shares	400,000,000	7.08%	9.37%	400,000,000	6.86%	9.41%
Xinhu Zhongbao	Beneficial owner	Domestic Shares	300,000,000	5.31%	7.02%	300,000,000	5.14%	7.06%
Zhejiang Xinhu Group Co., Ltd. (浙江新湖集團股份有限公司)	Interest of a controlled corporation	Domestic[(3)] Shares	300,000,000	5.31%	7.02%	300,000,000	5.14%	7.06%
Huang Wei (黃偉)	Interest of a controlled corporation	Domestic[(3)] Shares	300,000,000	5.31%	7.02%	300,000,000	5.14%	7.06%
Founder Securities	Beneficial owner	Domestic Shares	300,000,000	5.31%	7.02%	300,000,000	5.14%	7.06%
Peking University Founder Group Co., Ltd. (北大方正集團有限公司)	Interest of a controlled corporation	Domestic[(4)] Shares	300,000,000	5.31%	7.02%	300,000,000	5.14%	7.06%
Peking University Asset Management Company Limited (北大資產經營有限公司)	Interest of a controlled corporation	Domestic[(4)] Shares	300,000,000	5.31%	7.02%	300,000,000	5.14%	7.06%
Beijing Zhaotai	Beneficial owner	Domestic Shares	300,000,000	5.31%	7.02%	300,000,000	5.14%	7.06%

			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	Number of Shares directly or indirectly held	Approximate % of interest in our Bank	Approximate % of the relevant class of Shares of our Bank	Number of Shares directly or indirectly held	Approximate % of interest in our Bank	Approximate % of the relevant class of Shares of our Bank
Beijing Zhaotai Holding Co., Ltd. (北京兆泰控股有限公司)	Interest of a controlled corporation	Domestic[5] Shares	300,000,000	5.31%	7.02%	300,000,000	5.14%	7.06%
Mu Qiru (穆麒茹)	Interest of a controlled corporation	Domestic[5] Shares	300,000,000	5.31%	7.02%	300,000,000	5.14%	7.06%
Zhongyou Tianbao	Beneficial owner	Domestic Shares	230,000,000	4.07%	5.39%	230,000,000	3.94%	5.41%
Liu Xinfa (劉新發)	Interest of a controlled corporation	Domestic[6] Shares	230,000,000	4.07%	5.39%	230,000,000	3.94%	5.41%

Notes:

(1) Shenyang Hengxin is wholly owned by Shenyang Industrial Investment Development Group Co., Ltd. (瀋陽產業投資發展集團有限公司). By virtue of the SFO, Shenyang Industrial Investment Development Group Co., Ltd. is deemed to be interested in the Shares held by Shenyang Hengxin.

(2) Huibao International is wholly owned by Beijing Jiutai Group Co., Ltd. (北京九台集團有限公司), which is in turn owned as to 70% by Li Yuguo (李玉國). By virtue of the SFO, each of Beijing Jiutai Group Co., Ltd. and Li Yuguo is deemed to be interested in the Shares held by Huibao International.

(3) Xinhu Zhongbao is owned, directly and indirectly, as to approximately 47.39% by Zhejiang Xinhu Group Co., Ltd. (浙江新湖集團股份有限公司) and is ultimately controlled by Huang Wei (黃偉). By virtue of the SFO, each of Zhejiang Xinhu Group Co., Ltd. and Huang Wei is deemed to be interested in the Shares held by Xinhu Zhongbao.

(4) Founder Securities is owned as to approximately 30.55% by Peking University Founder Group Co., Ltd. (北大方正集團有限公司), which is in turn owned as to approximately 70% by Peking University Asset Management Company Limited (北大資產經營有限公司). By virtue of the SFO, each of Peking University Founder Group Co., Ltd. and Peking University Asset Management Company Limited is deemed to be interested in the Shares held by Founder Securities.

(5) Beijing Zhaotai is owned as to approximately 41.60% and 38.50% by Mu Qiru (穆麒茹) and Beijing Zhaotai Holding Co., Ltd. (北京兆泰控股有限公司), which is in turn owned as to 70% by Mu Qiru (穆麒茹). By virtue of the SFO, each of Beijing Zhaotai Holding Co., Ltd. and Mu Qiru is deemed to be interested in the Shares held by Beijing Zhaotai.

(6) Zhongyou Tianbao is controlled by Liu Xinfa (劉新發). By virtue of the SFO, Liu Xinfa is deemed to be interested in the Shares held by Zhongyou Tianbao.

As of the Latest Practicable Date, our share capital is RMB4,396,005,200, which comprised 4,396,005,200 Domestic Shares, as set forth below:

Class	Number of Shares	Approximate percentage of share capital
Domestic Shares	4,396,005,200	100%

Immediately after completion of the Global Offering, but without taking into account the exercise of the Over-Allotment Option, our total share capital would be as follows:

Class	Number of Shares	Approximate percentage of share capital
Domestic Shares	4,271,005,200	75.65%
H Shares converted from Domestic Shares and offered by the Selling Shareholders pursuant to the Global Offering	125,000,000	2.21%
H Shares issued pursuant to the Global Offering	1,250,000,000	22.14%
Total Share Capital	5,646,005,200	100.00%

If the Over-Allotment Option is exercised in full, our total share capital would be as follows:

Class	Number of Shares	Approximate percentage of share capital
Domestic Shares	4,252,255,200	72.89%
H Shares converted from Domestic Shares and offered by the Selling Shareholders pursuant to the Global Offering	143,750,000	2.46%
H Shares issued pursuant to the Global Offering	1,437,500,000	24.64%
Total Share Capital	5,833,505,200	100.00%

OUR SHARES

Both Domestic Shares and H Shares are ordinary shares in the share capital of our Bank. However, unless otherwise approved by relevant authorities, H Shares generally may not be subscribed for by, or traded between, legal or natural persons of the PRC.

Under our Articles of Association, the rights conferred on any class of shareholders may not be varied or abrogated unless approved by a special resolution of the shareholders' general meeting and by affected shareholders at a separate class meeting. The circumstances deemed to be a variation or abrogation of the rights of a class are listed in Appendix V – "Summary of Articles of Association". However, the procedures for approval by separate classes of shareholders do not apply: (i) where we issue, upon approval by a special resolution of the shareholders at a general meeting, shares representing no more than 20% of each of the existing issued Domestic Shares and H Shares, either separately or concurrently within every 12 months; (ii) where our 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) where the conversion of our unlisted shares for listing and trading overseas by our shareholders upon the approval by the banking regulatory authorities and the securities regulatory authorities of the State Council. Domestic Shares and H Shares are regarded as different classes of shares under our Articles of Association.

RANKING

The differences between Domestic Shares and H Shares, and the provisions on class rights, the despatch of notices and financial reports to shareholders, dispute resolution, registration of Shares on different registers of shareholders, the method of share transfer and appointment of dividend receiving agents are set forth in our Articles of Association and summarized in Appendix V – "Summary of Articles of Association".

Except for the differences above, Domestic Shares and H Shares will rank *pari passu* with each other in all other respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this prospectus. All dividends in respect of the H Shares are to be declared in Renminbi and paid by us in Hong Kong dollars whereas all dividends in respect of Domestic Shares are to be paid by us in Renminbi. In addition to cash, dividends may be distributed in the form of shares.

TRANSFER AND SALE OF STATE-OWNED SHARES

In accordance with relevant PRC rules regarding disposal of state-owned shares, our state-owned shareholders are required to transfer to the NSSF such number of Shares in aggregate equal to 10% of the number of the Offer Shares to be issued by our Bank. Pursuant to the State-owned Share Transfer Approval issued by the SASAC on September 26, 2014 and our issuance plan formulated according to relevant government approvals, such number of Shares in aggregate equal to 10% of the number of the Offer Shares to be offered by the Bank (being 1,250,000,000 H Shares before the exercise of the Over-Allotment Option or 1,437,500,000 H Shares in the case of full exercise of the Over-Allotment Option) held by our 37 state-owned shareholders will be transferred to the NSSF. At the time of the Listing, such Domestic Shares will be converted into H Shares on a one-for-one basis.

The transfer of Domestic Shares by our state-owned shareholders to the NSSF was approved by the SASAC on September 26, 2014. The conversion of those Domestic Shares into H Shares was approved by the CSRC on November 26, 2014. Pursuant to a letter issued by the NSSF (Shebaojijinfa [2014] No. 169) on November 13, 2014, the NSSF instructed us to (i) arrange for the sale of the Sale Shares, which shall equal to 10% of the number of the Offer Shares to be offered by our Bank, and (ii) remit the proceeds from the sale of the Sale Shares (after deducting the SFC transaction levy and Hong Kong Stock Exchange trading fee) to an account designated by the NSSF. See "Structure of the Global Offering – The Selling Shareholders". We have been advised by Tian Yuan Law Firm, our PRC legal advisor, that the conversion and sale described above have been approved by the relevant authorities and are in compliance with PRC laws.

We will not receive any proceeds from the sale of Sale Shares.

CONVERSION OF OUR DOMESTIC SHARES FOR LISTING AND TRADING ON THE HONG KONG STOCK EXCHANGE

According to the regulations by the securities regulatory authorities of the State Council and our Articles of Association, the holders of our non-listed Shares (currently, all of our non-listed Shares are Domestic Shares) may convert such non-listed Shares they hold into overseas listed shares. Such converted Shares may be transferred to overseas investors and may be listed or traded on an overseas stock exchange provided that the conversion and trading of such converted Shares shall have been approved by the relevant authorities, including the CSRC. In addition, such conversion and trading shall have completed any requisite internal approval process and complied with the regulations prescribed by the securities regulatory authorities of the State Council and the regulations, requirements and procedures prescribed by the relevant stock exchange.

If any Domestic Share is to be converted to H Shares and traded on the Hong Kong Stock Exchange, such conversion shall require the approval of the relevant PRC regulatory authorities, including the 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.

Based on the procedures for the conversion and transfer of Domestic Shares into H Shares as disclosed below, we 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 and transfer to ensure that the conversion and transfer 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 our shareholders and the public of any proposed conversion and transfer.

After all the requisite approvals have been obtained, the following procedures will need to be completed: the relevant Domestic Shares will be withdrawn from the China Securities Depository and Clearing Corporation Limited and we will re-register such Shares on our H Share register maintained in Hong Kong and instruct the H Share Registrar to issue H Share certificates. Registration on our H Share register will be on the conditions that (i) our H Share Registrar lodges with the Hong Kong Stock Exchange a letter confirming the 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 trade 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 would not be listed as H Shares.

LOCK-UP PERIODS

Pursuant to the PRC Company Law, the Shares issued prior to any public offering of our Shares should not be transferred within a period of one year from the date on which our publicly offered Shares are listed on the relevant stock exchange. Accordingly, the Shares issued by our Bank prior to the Listing Date shall be subject to such statutory restriction on transfer within a period of one year from the Listing Date.

SHAREHOLDERS' GENERAL MEETINGS AND CLASS MEETINGS

For details of circumstances under which our shareholders' general meeting and shareholders' class meeting are required, see paragraphs entitled "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 Appendix I – "Accountants' Report", which has been prepared in accordance with IFRS. 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 as of December 31, 2011, 2012 and 2013 and June 30, 2014 were RMB221,207 million, RMB313,242 million, RMB355,432 million and RMB449,127 million, respectively. The principal components of our assets are (i) loans and advances to customers, (ii) financial investments, (iii) deposits with banks and other financial institutions, and (iv) cash and deposits with central bank, which accounted for 32.4%, 26.0%, 21.1% and 15.2%, respectively, of our total assets as of June 30, 2014. The following table sets forth the balances of principal components of our total assets as of the dates indicated:

	As of December 31,						As of June 30,	
	2011		2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Assets								
Gross Loans and advances to customers	98,372	44.5%	114,131	36.4%	133,437	37.5%	147,745	32.9%
Allowance for impairment losses	(1,610)	(0.7)	(1,860)	(0.6)	(1,879)	(0.5)	(2,222)	(0.5)
Loans and advances to customers, net	96,762	43.8	112,271	35.8	131,558	37.0	145,523	32.4
Financial investment[(1)]	49,522	22.4	66,671	21.3	73,783	20.8	116,604	26.0
Deposits with banks and other financial institutions	16,235	7.3	62,276	19.9	62,233	17.5	94,578	21.1
Cash and deposits with central bank	48,145	21.8	53,692	17.1	65,238	18.4	68,394	15.2
Financial assets held under resale agreements	4,274	1.9	8,930	2.9	15,706	4.4	15,350	3.4
Placements with banks and other financial institutions	–	–	3,000	1.0	61	0.0	384	0.1
Financial assets at fair value through profit or loss	305	0.1	301	0.1	–	–	–	–
Others[(2)]	5,964	2.7	6,101	1.9	6,853	1.9	8,294	1.8
Total assets	221,207	100.0%	313,242	100.0%	355,432	100.0%	449,127	100.0%

Notes:

(1) Includes held-to-maturity investments, financial investments classified as loans and receivables and available-for-sale financial assets, but excludes financial assets at fair value through profit or loss.

(2) Includes interest receivables, property and equipment, other receivables, investments in associates, deferred income tax assets and other assets.

Our total assets increased by 41.6% from RMB221,207 million as of December 31, 2011, to RMB313,242 million as of December 31, 2012, by 13.5% to RMB355,432 million as of December 31, 2013, and by 26.4% to RMB449,127 million as of June 30, 2014. The growth in our total assets from December 31, 2011 to June 30, 2014 was largely the result of an increase in our loans and advances to customers, financial investment and deposits with banks and other financial institutions, which is attributable to the rapid development of our customer base and various business due to economic growth in Liaoning Province stimulated by the Strategy of Revitalization of the Old Industrial Bases in Northeast China as well as implementation of cross-region operations.

Loans and Advances to Customers

Loans and advances to customers are the largest component of our assets. As of December 31, 2011, 2012 and 2013 and June 30, 2014, our total loans and advances to customers, net of allowance for impairment losses, represented 43.8%, 35.8%, 37.0% and 32.4%, respectively, of our total assets. Our total loans and advances to customers increased by 16.0% to RMB114,131 million as of December 31, 2012 from RMB98,372 million as of December 31, 2011, by 16.9% to RMB133,437 million as of December 31, 2013 from RMB114,131 million as of December 31, 2012, and by 10.7% to RMB147,745 million as of June 30, 2014 from RMB133,437 million as of December 31, 2013. The steady increase in our loans and advances to customers from December 31, 2011 to June 30, 2014 was largely the result of the continued increase in our corporate loan business. As of June 30, 2014, we provided a broad range of loan products to our customers through our head office, branches and sub-branches. Except as otherwise indicated, the following discussion is based on our total loans and advances to customers before deducting the related allowance for impairment losses.

Loans and Advances to Customers by Business Type

Our loans and advances to customers principally consist of corporate loans, including discounted bills, and personal loans. See "Business – Our Principal Businesses" for a description of our principal loan products and services. The following table sets forth the components of our loans and advances to customers by business type as of the dates indicated:

	As of December 31,						As of June 30,	
	2011		2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Corporate loans	95,820	97.4%	111,028	97.3%	129,577	97.1%	143,124	96.9%
Including:								
Discounted bills	–	0.0	–	0.0	399	0.3	633	0.4
Personal loans	2,552	2.6	3,103	2.7	3,860	2.9	4,621	3.1
Total	98,372	100.0%	114,131	100.0%	133,437	100.0%	147,745	100.0%

Corporate Loans

Corporate loans constitute the largest component of our loan portfolio. As of December 31, 2011, 2012 and 2013 and June 30, 2014, our corporate loans were RMB95,820 million, RMB111,028 million, RMB129,577 million and RMB143,124 million, respectively, representing 97.4%, 97.3%, 97.1% and 96.9%, respectively, of our total loans and advances to customers.

Our corporate loans increased by 15.9% from RMB95,820 million as of December 31, 2011 to RMB111,028 million as of December 31, 2012, by 16.7% to RMB129,577 million as of December 31, 2013 and by 10.5% to RMB143,124 million as of June 30, 2014, primarily due to (i) our continued focus on extending loans to enterprises in certain key industries in Liaoning Province such as manufacturing and modern services; (ii) increases in related loan balance as a result of strengthening business cooperation with our key quality corporate customers; and (iii) our continued efforts to expand to regional markets outside Shenyang and our greater efforts on developing corporate banking business in Beijing, Tianjin, Shanghai and Changchun branches.

Corporate Loans by Contract Maturity

A majority of our corporate loans were medium- or long-term loans, with maturity of more than one year. The following table sets forth the distribution of our corporate loans by maturity as of the dates indicated:

	As of December 31,						As of June 30,	
	2011		2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Short-term loans(1)	29,241	30.5%	35,534	32.0%	48,918	37.8%	58,979	41.2%
Medium- and long-term loans(2)	66,579	69.5	75,494	68.0	80,659	62.2	84,145	58.8
Total	95,820	100.0%	111,028	100.0%	129,577	100.0%	143,124	100.0%

Notes:

(1) Consists of loans with maturity of one year or less.

(2) Consists of loans with maturity of more than one year.

Short-term loans as a percentage of our corporate loan portfolio increased from 30.5% as of December 31, 2011 to 32.0% as of December 31, 2012, further increased to 37.8% as of December 31, 2013 and 41.2% as of June 30, 2014. The increases were primarily due to (i) our increase in working capital loans to industries such as modern services and manufacturing industries; and (ii) our focus on extending short-term corporate loans as we aimed to enhance our liquidity.

Concentration of Corporate Loans by Industry

Our corporate loans consist of loans to customers in a broad range of industries. The following table sets forth a breakdown of our corporate loans by industry as of the dates indicated:

	As of December 31,						As of June 30,	
	2011		2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Wholesale and retail	19,189	20.0%	24,061	21.7%	27,390	21.1%	28,965	20.2%
Manufacturing	13,888	14.5	17,268	15.6	24,894	19.2	28,624	20.0
Real estate	20,326	21.2	22,997	20.7	25,217	19.5	27,729	19.4
Leasing and commercial services	8,671	9.0	9,190	8.3	14,370	11.1	18,357	12.8
Construction	9,094	9.5	11,655	10.5	10,068	7.8	9,954	7.0
Transportation, warehousing and postal services	3,295	3.4	2,522	2.3	2,858	2.2	4,463	3.1
Utilities supply	3,463	3.6	2,466	2.2	3,255	2.5	3,809	2.7
Mining	1,416	1.5	1,800	1.6	2,959	2.3	3,472	2.4
Public administration and social organizations	4,449	4.6	5,960	5.4	4,148	3.2	3,467	2.4
Culture, sports and entertainment	2,070	2.2	2,133	1.9	2,887	2.2	2,970	2.1
Household and other services	2,746	2.9	1,976	1.8	2,144	1.7	1,885	1.3
Hotel and catering	1,277	1.3	1,380	1.2	1,880	1.5	1,740	1.2
Agriculture, forestry, animal husbandry and fishery	344	0.4	659	0.6	1,955	1.5	1,520	1.1
Others	5,592	5.9	6,961	6.2	5,153	3.9	5,536	3.9
Discounted bills	–	–	–	–	399	0.3	633	0.4
Total	95,820	100.0%	111,028	100.0%	129,577	100.0%	143,124	100.0%

As of June 30, 2014, loans to customers in the (i) wholesale and retail, (ii) manufacturing, (iii) real estate and (iv) leasing and commercial services industries represented the largest components of our corporate loans. As of December 31, 2011, 2012 and 2013 and June 30, 2014, the balance of loans to corporate customers in the four industries was RMB62,074 million, RMB73,516 million, RMB91,871 million and RMB103,675 million, respectively, representing 64.7%, 66.3%, 70.9% and 72.4%, of our total corporate loans, respectively.

Loans to corporate customers in the wholesale and retail industry accounted for 20.0%, 21.7%, 21.1% and 20.2% of our total corporate loans as of December 31, 2011, 2012 and 2013 and June 30, 2014, respectively. The high percentages of loans to corporate customers in the wholesale and retail industry to our total corporate loans was primarily due to the fact that our headquarters and key branches are located in economically advanced cities namely Shenyang, Beijing, Tianjin, Shanghai and Dalian where there are fully-fledged industry clusters as well as commerce and trade service sectors. In order to cater for market demand, a higher amount of loans have been extended to customers there.

Loans to corporate customers in the manufacturing industry accounted for 14.5%, 15.6%, 19.2% and 20.0%, of our total corporate loans as of December 31, 2011, 2012 and 2013 and June 30, 2014, respectively. During the period from December 31, 2011 to June 30, 2014, the increase in the percentage of loans extended to manufacturing companies was primarily due to the policy support provided to the manufacturing industry under the Strategy of Revitalization of the Old Industrial Bases in Northeast China which had driven the increase in financing activities of the manufacturing industry in Northeast China and allowed us to extend more loans to large manufacturing enterprises and related upstream and downstream manufacturing enterprises.

Loans to corporate customers in the real estate industry accounted for 21.2%, 20.7%, 19.5% and 19.4% of our total corporate loans as of December 31, 2011, 2012 and 2013 and June 30, 2014, respectively. Loans to the real estate industry as a percentage of our corporate loan portfolio decreased gradually, primarily due to our efforts to optimize the loan portfolios and lower the proportion of loans to the real estate industry to total corporate loans by strengthening evaluation and control of these loans based on national macroeconomic policies.

Loans to corporate customers in the leasing and commercial services industry accounted for 9.0%, 8.3%, 11.1% and 12.8% of our total corporate loans as of December 31, 2011, 2012 and 2013 and June 30, 2014, respectively. From December 31, 2011 to June 30, 2014, the overall increase in our loans to customers in the leasing and commercial services industry as a percentage of our total loans was mainly due to the fact that we extended more loans to companies in the leasing and commercial services industry to meet a significant increase in demand resulting from favorable government policies supporting modern services.

Loans by Size of Corporate Borrowers

The following table sets forth the outstanding corporate loans by size of corporate borrowers as of the dates indicated:

	As of December 31,						As of June 30,	
	2011		2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Large enterprises(1)	19,501	20.4%	31,930	28.8%	44,370	34.2%	45,542	31.8%
Medium enterprises(1)	29,487	30.8	39,252	35.3	39,985	30.9	47,602	33.3
Small and micro enterprises(1)	40,057	41.7	31,007	27.9	37,056	28.6	41,962	29.3
Others(2)	6,775	7.1	8,839	8.0	8,166	6.3	8,018	5.6
Total	95,820	100.0%	111,028	100.0%	129,577	100.0%	143,124	100.0%

Notes:

(1) The classification criteria for large, medium and small enterprises in 2011 are pursuant to the Interim Provisions on the Standards for Medium and Small Enterprises (中小企業標準暫行規定) jointly promulgated by the State Economic and Trade Commission (國家經濟貿易委員會), the State Development Planning Commission (國家發展計劃委員會), the MOF and the NBSC in 2003; there were no classification criteria for micro enterprises in 2011; the classification criteria for large, medium, small and micro enterprises in 2012, 2013 and 2014 are pursuant to the Provisions on the Standards for the Classification of Medium and Small Enterprises (中小企業劃型標準規定) jointly promulgated by the PRC Ministry of Industry and Information Technology (中國工業和信息化部), the NBSC, the NDRC and the MOF in 2011.

(2) Primarily includes loans to public institutions.

As of December 31, 2011, 2012 and 2013 and June 30, 2014, loans extended to large enterprises increased by 63.7% from RMB19,501 million as of December 31, 2011 to RMB31,930 million as of December 31, 2012, by 39.0% to RMB44,370 million as of December 31, 2013 and by 2.6% to RMB45,542 million as of June 30, 2014. The increase in our loans to large enterprises from December 31, 2011 to June 30, 2014 mainly reflected the achievements we made through our efforts to develop long term strategic cooperation with large- and medium-sized quality enterprise customers in recent years. See "Business – Our Principal Businesses – Corporate Banking Business – Customer Base". Loans extended to medium, small and micro enterprises increased by 1.0% from RMB69,544 million as of December 31, 2011 to RMB70,259 million as of December 31, 2012, by 9.7% to RMB77,041 million as of December 31, 2013 and by 16.3% to RMB89,564 million as of June 30, 2014, mainly because we adopted a cluster marketing approach, established the Green Channel for the approval of small sum loans based on the national policy to promote the development of medium and micro enterprises, which increased credit extension to medium and micro enterprises which meet the requirements of the PRC's industry policies. See "Business – Our Principal Businesses – Corporate Banking Business – Corporate Loans – Financing Plans for Medium, Small and Micro Enterprises".

Corporate Loans by Size of Loans to a Single Corporate Borrower

The following table sets forth the outstanding corporate loans by size of loans to a single borrower as of the dates indicated:

	As of December 31,						As of June 30,	
	2011		2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Up to RMB10 million (including RMB10 million)	1,613	1.7%	2,748	2.5%	3,734	2.9%	4,249	3.0%
Over RMB10 million to RMB50 million (including RMB50 million)	13,325	13.9	15,051	13.6	17,071	13.2	18,334	12.8
Over RMB50 million to RMB100 million (including RMB100 million)	17,190	17.9	21,840	19.7	22,371	17.3	24,248	16.9
Over RMB100 million to RMB300 million (including RMB300 million)	38,407	40.1	41,684	37.5	49,871	38.4	51,112	35.7
Over RMB300 million to RMB500 million (including RMB500 million)	18,874	19.7	20,246	18.2	21,364	16.5	25,028	17.5
Over RMB500 million	6,411	6.7	9,459	8.5	15,166	11.7	20,153	14.1
Total	95,820	100.0%	111,028	100.0%	129,577	100.0%	143,124	100.0%

As of December 31, 2011, 2012 and 2013 and June 30, 2014, corporate loans provided to single borrowers over RMB300 million represented 26.4%, 26.7%, 28.2%, and 31.6% of our total corporate loans, respectively, which mainly reflected the continued development of business relations and cooperation with strategic customers which have a demand for larger loans.

Discounted Bills

As of December 31, 2011, 2012, 2013 and June 30, 2014, the balance of our discounted bills was nil, nil, RMB399 million and RMB633 million, respectively, which were bank acceptance bills, representing 0%, 0%, 0.3% and 0.4% of our total loans and advances to customers, respectively.

Personal Loans

As of December 31, 2011, 2012 and 2013 and June 30, 2014, our personal loans were RMB2,552 million, RMB3,103 million, RMB3,860 million and RMB4,621 million, respectively, and represented 2.6%, 2.7%, 2.9% and 3.1% of our total loans and advances to customers.

Personal loans increased by 21.6% from RMB2,552 million as of December 31, 2011 to RMB3,103 million as of December 31, 2012, then increased by 24.4% to RMB3,860 million as of December 31, 2013 and further increased by 19.7% to RMB4,621 million as of June 30, 2014, which was primarily due to increases in mortgage loans and personal consumption loans.

Personal Loans by Product

Our personal loans mainly include mortgage loans, personal consumption loans, credit card overdrafts, personal business loans and other personal loans. The following table sets forth the principal components of our personal loans by product types as of the dates indicated:

	As of December 31,						As of June 30,	
	2011		2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Mortgage loans	2,312	90.6%	2,661	85.8%	2,921	75.7%	3,182	68.9%
Personal consumption loans	53	2.1	118	3.8	237	6.1	559	12.1
Credit card overdrafts	155	6.1	236	7.6	433	11.2	493	10.7
Personal business loans	9	0.4	64	2.1	247	6.4	344	7.4
Others[(1)]	23	0.8	24	0.7	22	0.6	43	0.9
Total	2,552	100.0%	3,103	100.0%	3,860	100.0%	4,621	100.0%

Note:

(1) Primarily includes unemployment loans and small-amount loans to farmers.

Mortgage loans are the largest component of our personal loans, accounting for 90.6%, 85.8%, 75.7% and 68.9% of our personal loans as of December 31, 2011, 2012 and 2013 and June 30, 2014, respectively. Mortgage loans increased by 15.1% from RMB2,312 million as of December 31, 2011 to RMB2,661 million as of December 31, 2012, then increased by 9.8% to RMB2,921 million as of December 31, 2013 and further increased by 8.9% to RMB3,182 million as of June 30, 2014. The increases in the mortgage loan balance during these periods were primarily driven by market demand. The decreases in mortgage loans as a percentage of personal loans were mainly due to the diversified and rapid development of other personal loan businesses.

As of December 31, 2011, 2012 and 2013 and June 30, 2014, personal consumption loans accounted for 2.1%, 3.8%, 6.1% and 12.1% of our personal loans, respectively. Personal consumption loans significantly increased from RMB53 million as of December 31, 2011 to RMB118 million as of December 31, 2012, then increased significantly to RMB237 million as of December 31, 2013 and further increased significantly to RMB559 million as of June 30, 2014. The increases in personal consumption loans during these periods were primarily due to our increased effort to promote consumer loans as both income and spending of residents increase as a result of national economic development, and an increased number of our distribution outlets, in particular the financial service stations, which led to a larger number of customers, and promoted the growth of personal consumption loans.

As of December 31, 2011, 2012 and 2013 and June 30, 2014, credit card overdrafts accounted for 6.1%, 7.6%, 11.2% and 10.7% of our personal loans, respectively. Credit card overdrafts increased by 52.3% from RMB155 million as of December 31, 2011 to RMB236 million as of December 31, 2012, then increased by 83.5% to RMB433 million as of December 31, 2013 and further increased by 13.9% to RMB493 million as of June 30, 2014. The increases in credit card overdrafts during these periods were primarily due to the growth in the number of credit card issuances, as well as our efforts to develop high-end credit card customers which raised the average overdraft credit limits of credit cards.

As of December 31, 2011, 2012 and 2013 and June 30, 2014, personal business loans accounted for 0.4%, 2.1%, 6.4% and 7.4% of our personal loans, respectively. Personal business loans increased substantially from RMB9 million as of December 31, 2011 to RMB64 million as of December 31, 2012, then increased substantially to RMB247 million as of December 31, 2013, and further increased by 39.3% to RMB344 million as of June 30, 2014. The increases in personal business loans during these periods were primarily because we extended more loans to sole proprietors in response to their increasing financing demand.

Personal Loans by Size of Loans to Single Personal Borrowers

The following table sets forth outstanding personal loans by size of loans to single borrowers as of the dates indicated:

	As of December 31,						As of June 30,	
	2011		2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Up to RMB50,000 (including RMB50,000)	98	3.8%	106	3.4%	136	3.5%	166	3.6%
RMB50,000 to RMB300,000 (including RMB300,000)	1,627	63.8	1,778	57.3	1,975	51.2	2,083	45.1
RMB300,000 to RMB1 million (including RMB1 million)	662	25.9	928	29.9	1,081	28.0	1,231	26.6
RMB1 million to RMB5 million (including RMB5 million)	122	4.8	229	7.4	510	13.2	822	17.8
Over RMB5 million	43	1.7	62	2.0	158	4.1	319	6.9
Total	2,552	100.0%	3,103	100.0%	3,860	100.0%	4,621	100.0%

The percentage of personal loans to single borrowers with amounts over RMB1 million to our total personal loans increased from 6.5% as of December 31, 2011 to 9.4% as of December 31, 2012, and increased to 17.3% as of December 31, 2013 and further increased to 24.7% as of June 30, 2014. The increase was partly due to a higher total amount of mortgage loans as a result of an increase in unit housing price and partly to our increased efforts in loan extension to sole proprietors which increased the size of personal business loans in general.

Loans to Customers by Geographical Region

The following table sets forth the geographic distribution of loans, based on the location of loan origination as of the dates indicated:

	As of December 31,						As of June 30,	
	2011		2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Northeast China	82,245	83.6%	95,666	83.8%	111,121	83.3%	118,544	80.2%
North China	15,382	15.6	16,877	14.8	20,260	15.2	23,019	15.6
Other regions[(1)]	745	0.8	1,588	1.4	2,056	1.5	6,182	4.2
Total	98,372	100.0%	114,131	100.0%	133,437	100.0%	147,745	100.0%

Note:

(1) Other regions refer to operating outlets that are not located within Northeast China or North China.

We mainly operate the loan business in Northeast China. As of December 31, 2011, 2012 and 2013 and June 30, 2014, the total loans extended by our operating outlets in Northeast China were RMB82,245 million, RMB95,666 million, RMB111,121 million and RMB118,544 million, respectively, representing 83.6%, 83.8%, 83.3% and 80.2% of our total loans and advances to customers, respectively. The increase in total loan amount in the region during the period from December 31, 2011 to June 30, 2014 was primarily because benefiting from the Strategy of Revitalization of Old Industrial Bases in Northeast China, the wholesale and retail, manufacturing, leasing and commercial service industries had been fast developing and we increased loans to key industries in Northeast China.

As of December 31, 2011, 2012 and 2013 and June 30, 2014, the total amounts of loans extended by our outlets in North China were RMB15,382 million, RMB16,877 million, RMB20,260 million and RMB23,019 million, representing 15.6%, 14.8%, 15.2% and 15.6% of our total loans and advances to customers, respectively. The general increase in total loan amount in the region during the period from December 31, 2011 to June 30, 2014 was driven by the increase in the number of our outlets and business volume in North China, especially driven by the increase in loan extension by the Beijing Branch and Tianjin Branch.

As of December 31, 2011, 2012 and 2013 and June 30, 2014, the total loans extended in other regions were RMB745 million, RMB1,588 million, RMB2,056 million and RMB6,182 million, representing 0.8%, 1.4%, 1.5% and 4.2% of our total loans and advances to customers, respectively. During the period from December 31, 2011 to June 30, 2014, the increases in total loan amount were primarily due to the growth of business following the opening of the Shanghai Branch at the beginning of 2011.

Loans to Customers by Collateral

As of December 31, 2011, 2012 and 2013 and June 30, 2014, loans secured by mortgages, pledges or guarantees, in aggregate, accounted for 92.9%, 91.4%, 87.2% and 87.6% of our total loans and advances to customers, respectively. If a loan is secured by more than one form of collateral, the entire amount of such loan is allocated to the category representing the primary form of collateral. The following table sets forth the distribution of our loans to customers by collateral type as of the dates indicated:

	As of December 31,						As of June 30,	
	2011		2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Loans secured by mortgages	48,644	49.5%	61,591	54.0%	68,244	51.1%	75,366	51.0%
Loans secured by pledges	2,088	2.1	2,975	2.6	9,325	7.0	10,674	7.2
Guaranteed loans	40,664	41.3	39,719	34.8	38,780	29.1	43,416	29.4
Unsecured loans	6,976	7.1	9,846	8.6	17,088	12.8	18,289	12.4
Total	98,372	100.0%	114,131	100.0%	133,437	100.0%	147,745	100.0%

The percentage of loans secured by mortgages and pledges to our total loans increased from 51.6% as of December 31, 2011 to 56.6% as of December 31, 2012, then increased to 58.1% as of December 31, 2013 and to 58.2% as of June 30, 2014. The increases in loans secured by mortgages and pledges were primarily because we increased the proportion of loans secured by collateral in our loan portfolio to reduce credit risk.

As of December 31, 2011, 2012 and 2013 and June 30, 2014, the percentages of our guaranteed loans to our total loans were 41.3%, 34.8%, 29.1% and 29.4%, respectively. The overall decreases in guaranteed loans as a percentage of total loans were primarily because (i) we continued to adopt the stringent standards for extending guaranteed loans for the purpose of effectively managing and controlling the potential risks associated with guaranteed loans and (ii) certain guaranteed loans were classified as loans secured by mortgages or pledges, as we required additional collateral for certain guaranteed loans to reduce credit risk.

As of December 31, 2011, 2012 and 2013 and June 30, 2014, our unsecured loans accounted for 7.1%, 8.6%, 12.8% and 12.4% of our total loan portfolio, respectively. The overall increases in unsecured loans as a percentage of total loans were primarily because increase in the loan amount extended to our high-quality customers, a large number of which were leading players in various industries, and the increase in the number of such customers. We increased the volume of unsecured loans after reviewing financial conditions, capital structure, performance statements, operation efficiency and business prospects of these customers.

Borrowers Concentration

Ten largest Single Borrowers by Borrowing Amount

Under current PRC banking regulations, the aggregate amount of our loans to any single borrower may not exceed 10% of our net regulatory capital. See "Supervision and Regulation – Other Operational and Risk Management Ratios". The following table sets forth the borrowing amounts of the ten largest single borrowers as of June 30, 2014. As of the same date, all these loans were classified as pass loans.

	June 30, 2014				
Borrower	**Industry**	**Amount[1]**	**% of total loans**	**% of net regulatory capital[2]**	**Categorization**
	(in millions of RMB, except percentages)				
Borrower A .	Wholesale and retail	1,670	1.12%	5.65%	Pass
Borrower B .	Construction	1,571	1.06	5.32	Pass
Borrower C .	Leasing and commercial services	1,550	1.05	5.24	Pass
Borrower D .	Manufacturing	1,500	1.02	5.08	Pass
Borrower E .	Mining	1,500	1.02	5.08	Pass
Borrower F .	Real estate	1,500	1.02	5.08	Pass
Borrower G .	Manufacturing	1,415	0.96	4.79	Pass
Borrower H .	Manufacturing	1,305	0.88	4.42	Pass
Borrower I. .	Manufacturing	1,300	0.88	4.40	Pass
Borrower J. .	Public administration, social security and social organizations	1,300	0.88	4.40	Pass
Total		14,611	9.89%	49.46%	

Notes:

(1) Includes discounted bills.

(2) Represents loan balances as a percentage of our net regulatory capital.

Ten largest group borrowers by credit amount

Under current PRC banking regulations, the aggregate amount of credit extended to any group borrower may not exceed 15% of our net regulatory capital. See "Supervision and Regulation – Other Operational and Risk Management Ratios". The following table sets forth the ten largest group borrowers in terms of credit extended as of June 30, 2014. As of the same date, all these loans were classified as pass loans.

	June 30, 2014			
Borrower	**Industry**	**Balance[(1)]**	**% of net regulatory capital[(2)]**	**Categorization**
		(in millions of RMB, except percentages)		
Group A	Wholesale and retail	2,640	8.93%	Pass
Group B	Mining	2,500	8.46	Pass
Group C	Leasing and commercial services	2,500	8.46	Pass
Group D	Manufacturing	2,207	7.47	Pass
Group E	Manufacturing	2,200	7.44	Pass
Group F	Manufacturing	2,178	7.37	Pass
Group G	Manufacturing	1,991	6.74	Pass
Group H	Transportation, warehousing and postal services	1,859	6.29	Pass
Group I	Manufacturing	1,823	6.17	Pass
Group J	Leasing and commercial services	1,800	6.09	Pass
Total		21,698	73.42%	

Notes:

(1) Includes discounted bills and excludes security deposits, bank deposit slips and government bonds.

(2) Represents credit exposure excluding security deposits, bank deposit slips and government bonds as a percentage of our net regulatory capital.

Maturity Profile of Loans to Customers

The following table sets forth the scheduled maturities, defined as time remaining until maturity, of our loans to customers as of the date indicated:

	As of June 30, 2014				
	Due within 1 year	**Due between 1 and 5 years**	**Due more than 5 years**	**Overdue[1]**	**Total**
	(in millions of RMB)				
Corporate loans					
Short-term loans	57,935	–	–	1,044	58,979
Medium- and long-term loans	24,124	55,230	4,683	108	84,145
Subtotal	82,059	55,230	4,683	1,152	143,124
Including: discounted bills	633	–	–	–	633
Personal loans					
Mortgage loans	5	192	2,952	33	3,182
Personal business loans	332	12	–	–	344
Personal consumption loans	533	26	–	–	559
Credit card overdrafts	457	–	–	36	493
Others[2]	33	10	–	–	43
Subtotal	1,360	240	2,952	69	4,621
Total	83,419	55,470	7,635	1,221	147,745

Notes:

(1) Refers to customer loans where the payment of principal or interest is overdue.

(2) Primarily includes unemployment loans and small-amount loans to farmers.

As of June 30, 2014, 56.5% of our loans and advances to customers were due within one year; most of these were short-term corporate loans.

Loan Interest Rate Profile

In recent years, the PBOC has implemented a series of initiatives to gradually liberalize interest rates and move towards a more market-based interest rate regime. In July 2013, the PBOC removed the lower limit of the floating range of lending interest rates, providing more flexibility to commercial banks in the PRC to determine their own lending interest rates. As of June 30, 2014, most of our loans were floating interest rate loans. For loans with floating interest rates, we generally adjust our interest rates in the quarter immediately following the quarter in which the benchmark interest rates are adjusted.

Since October 27, 2008, the interest rates of personal home mortgage loans have been set at a level of not less than 70% of the PBOC benchmark lending rate, and since April 17, 2010, the interest rate of personal home mortgage loans to second-home buyers may not be lower than 110% of the PBOC benchmark lending rate. See "Supervision and Regulation – Pricing of Products and Services".

Asset Quality of Our Loan Portfolio

We measure and monitor the asset quality of our loans to customers through our loan classification system. We generally classify our loans to customers using a five-category loan classification system, which complies with the CBRC's guidelines. See "Supervision and Regulation – Loan Classification, Allowances and Write-Offs – Loan Classification".

Loan Classification

We measure and manage the quality of our loans to customers based on the Guidelines on Risk-Based Classification of Loans (《貸款風險分類指引》) issued by the CBRC in July 2007. The Guidelines on Risk-Based Classification of Loans provide that the principal determination in classifying a loan should be based on the assessment of the repayment ability of the borrower. Based on the Guidelines on Risk-Based Classification of Loans, we have also developed our own detailed operating rules relating to loan classification. The factors we generally consider for loan classification include: (i) borrower's ability to repay the loan; (ii) repayment record of the borrower; (iii) borrower's willingness to repay; (iv) profitability of the project being financed by the loans; (v) the net realizable value of any collateral and the prospect for support from any guarantor; (vi) legal responsibility to repay the loan; and (vii) our credit risk management policy. The key factors for each loan category are listed below. See "Risk Management – Credit Risk Management – Credit Risk Management for Corporate Loans – Post-Lending Management – Loan Classification".

Corporate Loans

We classify our corporate loans (including discounted bills) by way of the above criteria. Set forth below are the major factors that we consider for each loan classification.

Pass. The borrower is able to perform the contract and there is insufficient evidence to doubt the borrower's ability to repay principal and make interest payments in full on a timely basis. Pass corporate loans primarily have the following characteristics:

- Both principal and interest of the loan are not overdue;
- The borrower's production and operation are stable; and
- The borrower repays the loan with the cash generated from its normal operating activities, and the cash flow is stable.

Special Mention. The borrower is able to repay principal and make interest payments, but there are factors that may adversely affect the borrower's ability to repay. Special mention corporate loans primarily have the following characteristics:

- Principal or interest is overdue, but less than three months;
- Principal or interest on the loan is not overdue, but the borrower is suspected of maliciously evading its bank debts through measures such as corporate merger, restructuring or division;
- The borrower needs to resort to other methods of financing to repay its loans;
- The use of loan proceeds has changed; and
- Loans were extended in violation of relevant laws and regulations.

Substandard. There are obvious problems with the borrower's ability to repay, such that it cannot rely entirely on normal business revenues to repay principal and interest, and losses may result even if collateral or guarantee obligations are enforced. Substandard corporate loans primarily have the following characteristics:

- The principal or interest is overdue (including the grace period) for more than three months, but less than 12 months;
- No significant loss is expected;
- The borrower maliciously evades its bank debts through measures such as corporate merger or division and the payment of principal or interest is overdue;

- There are obvious problems with the borrower's trading position; key indicators such as operating income, financial position and cash flows have begun to deteriorate; the borrower, therefore, is unable to repay the principal and interest; and the security needs to be enforced for repayment; and

- The borrower does not have sufficient ability to repay or does not have sufficient collateral, which indicates an existing problem with its full payment of the principal and interest.

Doubtful. The borrower is unable to repay principal and interest in full and significant losses will occur even if the security is enforced. Doubtful corporate loans primarily have the following characteristics:

- Principal or interest on the loan is overdue for more than 12 months;

- The value of the security is significantly insufficient;

- The borrower has actually gone bankrupt, ceased operation, or is going to cease operation or is preparing for liquidation;

- The borrower has been confirmed to be deliberately avoiding its liability and there is difficulty in recovering the loan; and

- There is a legal dispute over the borrower's responsibility to repay the loan, and legal proceedings have been initiated.

Loss. No principal and interest or only a minimal portion of principal and interest could be recovered after all possible measures have been taken and all legal remedies have been exhausted. Loss corporate loans primarily have the following characteristics:

- The loan is unrecoverable despite enforcement of a court judgment; a court has issued a final and conclusive judgment against us with respect to the full amount of the loan; the loan is unrecoverable despite a favorable court judgment due to our failure to apply to the court for enforcement before the applicable deadline, the borrower's lack of assets to satisfy the judgment, or force majeure;

- The loan is totally unrecoverable or only a small portion of it can be recovered, as confirmed by the procedure assessing the extent of the borrower's net assets to repay the loan;

- The legal proceedings related to the master loan agreement have lapsed, or the borrower has refused to confirm documentation relating to any indebtedness, and the loan cannot be recovered by any possible measures or any necessary legal procedures;

- No loan contract (agreement) has been signed with the borrower, or the original of the loan contract (agreement) has been lost, and the borrower refuses to confirm the loan despite our exercise of creditor's rights by all means;

- The borrower and the guarantor (if applicable) have legally declared bankruptcy, dissolution or rescission (closure) with its qualification of legal entity terminated, and the loan is unrecoverable even after we commenced legal proceedings against the borrower and guarantor (if applicable);

- Although the borrower and the guarantor (if applicable) have not legally declared bankruptcy, dissolution or rescission (closure), they have completely ceased operation with their business licences revoked by the administrative authorities of industry and commerce and its qualification of legal entity terminated, and the loan is unrecoverable after we commenced legal proceedings against the borrower and guarantor (if applicable);

- The borrower is incapable of repaying the debt and has no assets. The loan guarantee has expired while the guarantor refuses to perform its obligation under the guarantee; the guarantor has declared bankruptcy, deregistration or rescission (closure); or the guarantor's trading position deteriorates, and it is suffering a loss and becomes insolvent and is unable to perform its obligation under the guarantee;

- The Bank is unable to recover the loan after liquidation of the borrower's assets and having recourse to the guarantor, as the borrower suffered from material natural disasters or accidents which resulted in substantial losses and is not covered by insurance, or was still unable to repay part or all of the debts even with the insurance compensation;

- The borrower is unable to repay its debt when due, and the Bank is unable to recover the loan with the shortfall after we have credited the fair value (as confirmed by valuation) of the repossessed assets net of the handover fees of the said assets; and

- Other circumstances in which all or most of the principal and interest may be or have been lost.

Loans that need to be restructured should be at least classified as Substandard. Restructured loans refer to loans of which the Bank amends the repayment terms under the loan contract due to deterioration of the borrower's financial position or inability to repay the loan. The restructured loan should at least be classified as Doubtful if it is still overdue after the restructuring, or the borrower is still unable to repay the loan after the restructuring.

Personal Loans

In applying the loan classification criteria to personal loans (excluding credit card overdrafts), we primarily consider the length of time by which principal or interest is overdue, as well as the risk characteristics of the borrower and the collateral or guarantee for the loan, and categorize loans in reference to the matrix for loan categorization by overdue time. The following table sets forth the five-category classification of our personal loans according to the time for which the principal or interest is overdue:

Types of guarantee	Current	1-30 days	31-90 days	91-180 days	181-365 days	Over 365 days
Pledged	Pass	Pass	Pass	Special mention	Substandard	Doubtful
Secured	Pass	Pass	Special mention	Special mention	Substandard	Doubtful
Guaranteed	Pass	Pass	Special mention	Substandard	Substandard	Doubtful
Unsecured	Pass	Pass	Special mention	Substandard	Doubtful	Loss

Credit card

In applying the loan classification criteria to credit card overdrafts, we consider the time by which the principal or interest is overdue. The following table sets forth the five-category classification for our personal loans according to the time for which the principal or interest is overdue:

	Overdue days
Pass	0
Special mention	1-90
Substandard	91-120
Doubtful	121-180
Loss	>180

Five-Category Loan Classification

The following table sets forth, as of the dates indicated, our loans to customers in each category of the five-category loan classification. The Bank's "non-performing loans" has the same meaning as "impaired loans," which refers to the loans recognized as "impaired loans and advances" in Note 39(1) to Appendix I – "Accountants' Report" to this prospectus, including loans to customers that are classified as Substandard, Doubtful and Loss. As of June 30, 2014, we recorded non-performing loans of RMB646 million and our allowance for impairment losses on loans was RMB2,222 million. The following table sets forth our loans to customers under the five-category loan classification as of the dates indicated:

	As of December 31,						As of June 30,	
	2011		2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Pass	94,411	95.9%	108,544	95.0%	131,400	98.5%	146,059	98.9%
Special mention	3,344	3.4	4,972	4.4	1,424	1.1	1,040	0.7
Substandard	250	0.3	172	0.2	333	0.2	389	0.3
Doubtful	86	0.1	256	0.2	217	0.2	214	0.1
Loss	281	0.3	187	0.2	63	0.0	43	0.0
Total	98,372	100.0%	114,131	100.0%	133,437	100.0%	147,745	100.0%
Total non-performing loans[(1)]	617	0.63%	615	0.54%	613	0.46%	646	0.44%

Note:

(1) Loans to customers classified as substandard, doubtful or loss.

The following table sets forth the distribution of our loans to customers by business type and by the five-category loan classification as of the dates indicated:

	As of December 31,						As of June 30,	
	2011		2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Corporate loans (excluding discounted bills)								
Pass	91,891	95.8%	105,475	94.9%	127,187	98.4%	140,870	98.9%
Special mention	3,340	3.5	4,969	4.5	1,419	1.1	1,024	0.7
Substandard	250	0.3	172	0.2	332	0.3	388	0.3
Doubtful	64	0.1	235	0.2	197	0.2	193	0.1
Loss	275	0.3	177	0.2	43	0.0	16	0.0
Subtotal	95,820	100.0%	111,028	100.0%	129,178	100.0%	142,491	100.0%
Non-performing loans(1)	589	0.61%	584	0.53%	572	0.44%	597	0.42%
Discounted bills								
Pass	–	–	–	–	399	100.0%	633	100.0%
Special mention	–	–	–	–	–	–	–	–
Substandard	–	–	–	–	–	–	–	–
Doubtful	–	–	–	–	–	–	–	–
Loss	–	–	–	–	–	–	–	–
Subtotal	–	–	–	–	399	100.0%	633	100.0%
Non-performing loans(1)	–	–	–	–	–	–	–	–
Personal loans								
Pass	2,520	98.7%	3,069	98.9%	3,814	98.9%	4,556	98.6%
Special mention	4	0.2	3	0.1	5	0.1	16	0.3
Substandard	–	–	–	–	1	0.0	1	0.0
Doubtful	22	0.9	21	0.7	20	0.5	21	0.5
Loss	6	0.2	10	0.3	20	0.5	27	0.6
Subtotal	2,552	100.0%	3,103	100.0%	3,860	100.0%	4,621	100.0%
Non-performing loans(1)	28	1.10%	31	1.00%	41	1.06%	49	1.06%
Total loans to customers	98,372		114,131		133,437		147,745	
Non-performing loans(1)	617	0.63%	615	0.54%	613	0.46%	646	0.44%

Note:

(1) Loans to customers classified as substandard, doubtful or loss.

As of December 31, 2011, 2012 and 2013 and June 30, 2014, the non-performing loan ratios of our total loan portfolio were 0.63%, 0.54%, 0.46% and 0.44%, respectively. During the periods, the decreases in our non-performing loan ratios were primarily due to the following factors:

- We enhanced our credit risk management capabilities based on national policies and market conditions, including formulating guidelines for credit extension and timely adjusting credit extension policies;
- We continued to optimize selection requirements of industries, regions and customers, adjusted our asset portfolios and credit structure, conducted stringent pre-loan investigations, carefully selected the collateral, and carried out intensified analysis and assessment of borrower financial indicators;
- We gradually strengthened post-loan inspections and continued to monitor the business conditions and cash flow of customers, and raised early warnings for loans which were about to mature or loans extended to borrowers with major changes in their operations, income or expenditure; and
- We gradually strengthened the collection of non-performing loans of our branches and sub-branches, and assigned dedicated personnel to collect the loans, which demanded extraordinary efforts.

Changes in Asset Quality of Our Loans

Movements in Non-Performing Loans

The following table sets forth the movement of our non-performing loans for the years/periods indicated:

	Year ended December 31,			**Six months ended June 30,**
	2011	**2012**	**2013**	**2014**
	(in millions of RMB)			
Opening balance	**628**	**617**	**615**	**613**
Increases	150	113	228	211
Decreases				
Write-offs	(70)	(100)	(158)	(31)
Recoveries	(20)	(10)	(21)	(146)
Upgrades	(71)	(5)	(51)	(1)
Closing balance	617	615	613	646

The following table sets forth the migration ratios of our loan portfolio for the periods indicated, calculated in accordance with the applicable CBRC requirements:

	Year ended December 31,			Six months ended June 30,
	2011	**2012**	**2013**	**2014**
Pass and special mention loans(1)	0.35%	0.33%	0.79%	0.20%
Pass loans(2)	0.00%	1.06%	1.19%	1.01%
Special mention loans(3)	14.60%	6.01%	6.26%	5.04%
Substandard loans(4)	10.69%	2.27%	0.27%	48.25%
Doubtful loans(5)	27.80%	4.39%	11.88%	37.29%

Notes:

(1) Represents migration ratios of loans classified as pass or special mention which were downgraded to other classifications. The migration ratio of pass and special mention loans represents a fraction, the numerator of which equals the sum of (i) loans classified as pass at the beginning date of the period and downgraded to non-performing classifications at the end of the period, and (ii) loans classified as special mention at the beginning date of the period and downgraded to non-performing classifications at the end of the period, and the denominator of which equals the sum of (i) the difference between the balance of pass loans at the beginning date of the period and the decrease, in the period, in the loans which were classified as pass at the beginning date of the period, and (ii) the difference between the balance of special mention loans at the beginning date of the period and the decrease in such loans in the period.

(2) Represents the migration ratio of loans classified as pass which were downgraded to other classifications. The pass loan migration ratio represents a fraction, the numerator of which equals loans classified as pass at the beginning date of the period and downgraded to lower classifications, and the denominator of which equals the difference between the balance of pass loans at the beginning date of the period and the decrease in such loans in the period.

(3) Represents the migration ratio of loans classified as special mention which were downgraded to other classifications. 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 date of the period and downgraded to lower classifications, and the denominator of which equals the difference between the balance of special mention loans at the beginning date of the period and the decrease in such loans in the period.

(4) Represents the migration ratio of loans classified as substandard which were downgraded to other classifications. The substandard loan migration ratio represents a fraction, the numerator of which equals the loans classified as substandard at the beginning date of the period and downgraded to other classifications, and the denominator of which equals the difference between the balance of substandard loans at the beginning date of the period and the decrease in such loans in the period.

(5) Represents the migration ratio of loans classified as doubtful which were downgraded to other classifications. The doubtful loan migration ratio represents a fraction, the numerator of which equals the loans classified as doubtful at the beginning date of the period and downgraded to other classifications, and the denominator of which equals the difference between the balance of doubtful loans at the beginning date of the period and the decrease in such loans in the period.

Distribution of Non-Performing Loans by Product Type

The following table sets forth the distribution of our non-performing loans by product type as of the dates indicated:

	As of December 31,									As of June 30,		
	2011			2012			2013			2014		
	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)
	(in millions of RMB, except percentages)											
Corporate loans												
Short-term loans	377	61.1%	1.29%	505	82.1%	1.42%	338	55.1%	0.69%	454	70.3%	0.77%
Medium- or long-term loans	212	34.3	0.32%	79	12.8	0.10%	234	38.2	0.29%	143	22.1	0.17%
Discounted bills	–	–	–	–	–	–	–	–	–	–	–	–
Subtotal	589	95.4	0.61%	584	94.9	0.53%	572	93.3	0.44%	597	92.4	0.42%
Personal loans												
Residential mortgage loans	21	3.4	0.91%	20	3.3	0.75%	20	3.3	0.68%	21	3.3	0.66%
Personal consumption loans	–	–	–	–	–	–	–	–	–	–	–	–
Credit card overdrafts	7	1.2	4.52%	11	1.8	4.66%	21	3.4	4.85%	28	4.3	5.68%
Personal business loans	–	–	–	–	–	–	–	–	–	–	–	–
Subtotal	28	4.6	1.10%	31	5.1	1.00%	41	6.7	1.06%	49	7.6	1.06%
Total	617	100.0%	0.63%	615	100.0%	0.54%	613	100.0%	0.46%	646	100.0%	0.44%

Note:

(1) Calculated by dividing non-performing loans (loans classified as substandard, doubtful or loss) in each product type by total loans in that product type.

Our non-performing loans decreased by 0.3% from RMB617 million as of December 31, 2011 to RMB615 million as of December 31, 2012, by 0.3% to RMB613 million as of December 31, 2013, and increased by 5.4% to RMB646 million as of June 30, 2014. The non-performing loan ratios, defined as non-performing loans divided by our total loans and advances to customers, were 0.63% as of December 31, 2011, 0.54% as of December 31, 2012, 0.46% as of December 31, 2013, and 0.44% as of June 30, 2014.

As of December 31, 2011, 2012 and 2013 and June 30, 2014, the non-performing loan ratios of our corporate loans (including discounted bills) were 0.61%, 0.53%, 0.44% and 0.42%, respectively.

The decrease in the non-performing loan ratios of our corporate loans and advances as of December 31, 2011, 2012 and 2013 and June 30, 2014 was primarily due to our continued stringent investigation before lending, continued monitoring of customers' trading positions and cash flow, gradually strengthened monitoring, and management of overdue loans with increasingly strengthened loan collection efforts, resulting in the decrease in non-performing loan ratios of corporate loans over the years.

As of December 31, 2011, 2012 and 2013 and June 30, 2014, the non-performing loan ratios of our personal loans were 1.10%, 1.00%, 1.06% and 1.06%, respectively. The overall decrease in the non-performing loan ratios of our personal loans during the period was in line with the decrease in non-performing loan ratios of corporate loans due to our stringent loan management system.

Distribution of Non-Performing Corporate Loans by Industry

The following table sets forth the distribution of our non-performing corporate loans by industry as of the dates indicated:

	As of December 31,									As of June 30,		
	2011			2012			2013			2014		
	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)
	(in millions of RMB, except percentages)											
Wholesale and retail	159	27.0%	0.83%	89	15.3%	0.37%	42	7.3%	0.15%	29	4.9%	0.10%
Manufacturing	306	51.9	2.20%	349	59.9	2.02%	293	51.2	1.18%	314	52.6	1.10%
Real estate	30	5.0	0.15%	25	4.3	0.11%	192	33.6	0.76%	94	15.7	0.34%
Leasing and commercial services	2	0.3	0.02%	2	0.3	0.02%	–	–	–	90	15.1	0.49%
Construction	39	6.6	0.43%	34	5.8	0.29%	29	5.1	0.29%	24	4.0	0.24%
Transportation, warehousing and postal services	3	0.5	0.09%	12	2.1	0.48%	–	–	–	–	–	–
Utilities supply	–	–	–	–	–	–	–	–	–	–	–	–
Mining	–	–	–	–	–	–	–	–	–	–	–	–
Public administration and social organizations	–	–	–	–	–	–	–	–	–	–	–	–
Culture, sports and entertainment	4	0.8	0.19%	4	0.7	0.19%	1	0.2	0.03%	–	–	–
Household and other services	6	1.1	0.22%	5	0.9	0.25%	1	0.2	0.05%	–	–	–
Hotel and catering	31	5.3	2.43%	25	4.3	1.81%	11	1.9	0.59%	44	7.4	2.53%
Agriculture, forestry, animal husbandry and fishery	1	0.1	0.29%	1	0.2	0.15%	–	–	–	–	–	–
Others	8	1.4	0.14%	38	6.2	0.55%	3	0.5	0.06%	2	0.3	0.04%
Discounted bills	–	–	–	–	–	–	–	–	–	–	–	–
Total	589	100.0%	0.61%	584	100.0%	0.53%	572	100.0%	0.44%	597	100.0%	0.42%

Note:

(1) Calculated by dividing non-performing loans (loans classified as substandard, doubtful or loss) in each industrial category by total loans in that industrial category.

As of June 30, 2014, a significant portion of our non-performing corporate loans were attributable to the manufacturing industry, mainly because (i) corporate loans to customers from the manufacturing industry accounted for a high percentage of our total corporate loans; and (ii) certain early manufacturing enterprises experienced operating problems or losses due to failures in response to market needs and changes, and thus we reclassified the loans to such customers as non-performing loans. As of December 31, 2011, 2012 and 2013 and June 30, 2014, our non-performing loan ratios of corporate loans in the manufacturing industry were 2.20%, 2.02%, 1.18% and 1.10%, respectively, reflecting a downward trend over the years. As of June 30, 2014, our non-performing corporate loans to this industry accounted for 52.6% of the total of our non-performing corporate loans.

As of December 31, 2011, 2012 and 2013 and June 30, 2014, our non-performing loans in the wholesale and retail industry accounted for 27.0%, 15.3%, 7.3% and 4.9% of our total non-performing corporate loans, respectively. The overall decrease in the percentage of our total non-performing loans in this industry from December 31, 2011 to June 30, 2014 is mainly because we continued our stringent pre-loan investigation to allow us to select high quality borrowers and continued to strengthen post-loan inspection so that we can identify early warning signals and rectify the situation proactively.

As of December 31, 2011, 2012 and 2013 and June 30, 2014, our non-performing loans in the real estate industry accounted for 5.0%, 4.3%, 33.6% and 15.7% of our total non-performing corporate loans, respectively. The increase in the percentage of our total non-performing loans in this industry as of December 31, 2013 is mainly because a loan to a real estate company borrower was classified as a non-performing loan in 2013 but was repaid in full in the first six months of 2014.

Non-performing loans in the leasing and commercial services industry as a percentage of our total non-performing corporate loans significantly increased to 15.1% as of June 30, 2014 from nil as of December 31, 2013. The increase is mainly because a single loan to a leasing company was classified as a non-performing loan at the end of May 2014, but was repaid in full in August 2014.

Our non-performing loan ratio in the hotel and catering industry was relatively high compared with other industries as of December 31, 2011, 2012 and 2013 and June 30, 2014, mainly because players in the hotel and catering industry were more vulnerable to adverse market changes.

Distribution of Non-Performing Loans by Geographical Region

The following table sets forth the distribution of our non-performing loans by geographical region as of the dates indicated:

	As of December 31,									As of June 30,		
	2011			2012			2013			2014		
	Amount	% of total	NPL ratio[1]	Amount	% of total	NPL ratio[1]	Amount	% of total	NPL ratio[1]	Amount	% of total	NPL ratio[1]
	(in millions of RMB, except percentages)											
Northeast China	617	100.0%	0.75%	615	100.0%	0.64%	596	97.2%	0.54%	629	97.4%	0.53%
North China	–	–	–	–	–	–	–	–	–	–	–	–
Other regions[2]	–	–	–	–	–	–	17	2.8	0.83%	17	2.6	0.27%
Total	617	100.0%	0.63%	615	100.0%	0.54%	613	100.0%	0.46%	646	100.0%	0.44%

Notes:

(1) Calculated by dividing non-performing loans (loans classified as substandard, doubtful or loss) in each region by total loans and advances in that region.

(2) Other regions refer to those outlets operating outside Northeast China and North China.

As of December 31, 2011, 2012 and 2013 and June 30, 2014, non-performing loans were primarily from Northeast China because most of our loans were granted to customers from Northeast China during the Track Record Period. See "– Loans and Advances to Customers – Loans to Customers by Geographical Region" for the allocation of loans to customers by geographical region and "– Changes in Asset Quality of Our Loans – Movements in Non-Performing Loans" for a general discussion on these movements.

Distribution of Non-Performing Loans by Collateral

The following table sets forth the distribution of our non-performing loans by type of collateral as of the dates indicated:

	As of December 31,									As of June 30,		
	2011			2012			2013			2014		
	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)
	(in millions of RMB, except percentages)											
Corporate loans												
Loans secured by mortgages	277	44.9%	0.60%	329	53.5%	0.56%	503	82.0%	0.77%	359	55.6%	0.50%
Loans secured by pledges	–	–	–	12	1.9	0.41%	4	0.7	0.05%	70	10.8	0.73%
Guaranteed loans	312	50.5	0.77%	243	39.5	0.61%	65	10.6	0.17%	168	26.0	0.39%
Unsecured loans	–	–	–	–	–	–	–	–	–	–	–	–
Subtotal	589	95.4	0.61%	584	94.9	0.53%	572	93.3	0.44%	597	92.4	0.42%
Discounted bills	–	–	–	–	–	–	–	–	–	–	–	–
Personal loans												
Loans secured by mortgages	21	3.4	0.95%	20	3.3	0.80%	20	3.3	0.68%	20	3.1	0.63%
Loans secured by pledges	–	–	–	–	–	–	–	–	–	–	–	–
Guaranteed loans	–	–	–	–	–	–	–	–	–	–	–	–
Unsecured loans	7	1.2	4.66%	11	1.8	4.41%	21	3.4	4.78%	29	4.5	5.63%
Subtotal	28	4.6	1.10%	31	5.1	1.00%	41	6.7	1.06%	49	7.6	1.06%
Total	617	100.0%	0.63%	615	100.0%	0.54%	613	100.0%	0.46%	646	100.0%	0.44%

Note:

(1) Calculated by dividing non-performing loans (loans classified as substandard, doubtful or loss) in each type of collateral by total loans and advances in that type of collateral.

Distribution of Non-performing Loans by Term of Loans

The following table sets forth the distribution of our non-performing loans by the remaining maturity of the loan as of the dates indicated:

	As of December 31,									As of June 30,		
	2011			2012			2013			2014		
	Amount	% of total	NPL ratio[(1)]	Amount	% of total	NPL ratio[(1)]	Amount	% of total	NPL ratio[(1)]	Amount	% of total	NPL ratio[(1)]
	(in millions of RMB, except percentages)											
Corporate loans												
Less than one year	28	4.5%	0.05%	77	12.5%	0.13%	27	4.4%	0.04%	29	4.5%	0.04%
One to five years	1	0.2	0.00%	1	0.2	0.00%	–	–	–	35	5.4	0.06%
More than five years	–	–	–	–	–	–	–	–	–	–	–	–
Overdue	560	90.7	80.57%	506	82.2	25.83%	545	88.9	61.44%	533	82.5	46.27%
Subtotal	589	95.4	0.61%	584	94.9	0.53%	572	93.3	0.44%	597	92.4	0.42%
Discounted bills	–	–	–	–	–	–	–	–	–	–	–	–
Personal loans												
Less than one year	–	–	–	–	–	–	–	–	–	–	–	–
One to five years	–	–	–	–	–	–	–	–	–	–	–	–
More than five years	–	–	–	–	–	–	–	–	–	–	–	–
Overdue	28	4.6	81.29%	31	5.1	88.23%	41	6.7%	85.42%	49	7.6	71.01%
Subtotal	28	4.6	1.10%	31	5.1	1.00%	41	6.7	1.06%	49	7.6	1.06%
Total	617	100.0%	0.63%	615	100.0%	0.54%	613	100.0%	0.46%	646	100.0%	0.44%

Note:

(1) Calculated by dividing non-performing loans (loans classified as substandard, doubtful or loss) in each category by total loans and advances in that category.

Borrowers with the Largest Amount of Non-Performing Loans

The following table sets forth the ten single borrowers with the largest amount of non-performing loans as of the date indicated:

	As of June 30, 2014			
Borrower	Industry	Outstanding principal amount	Category	% of total non-performing loans
	(in millions of RMB, except percentages)			
Borrower A	Manufacturing	171	Doubtful	26.5%
Borrower B	Leasing and commercial services	90	Substandard	13.9%
Borrower C	Real estate	80	Substandard	12.4%
Borrower D	Manufacturing	70	Substandard	10.8%
Borrower E	Hotel and catering	35	Substandard	5.4%
Borrower F	Manufacturing	24	Substandard	3.7%
Borrower G	Real estate	14	Doubtful	2.2%
Borrower H	Wholesale and retail	13	Substandard	2.0%
Borrower I	Manufacturing	12	Substandard	1.9%
Borrower J	Construction	12	Substandard	1.9%

Overdue Loans

The following table sets forth our overdue loans to customers as of the dates indicated:

	As of December 31,						As of June 30,	
	2011		2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Not overdue	97,642	99.3%	112,142	98.3%	132,502	99.3%	146,524	99.2%
Overdue by:[(1)]								
1 to 90 days	141	0.1	1,207	1.1	345	0.3	728	0.4
91 to 360 days	147	0.1	281	0.2	105	0.1	87	0.1
More than 360 days	442	0.5	501	0.4	485	0.3	406	0.3
Total overdue loans	730	0.7	1,989	1.7	935	0.7	1,221	0.8
Total loans and advances to customers	98,372	100.0%	114,131	100.0%	133,437	100.0%	147,745	100.0%
Overdue by more than 90 days	589	0.6%	782	0.7%	590	0.4%	493	0.3%

Note:

(1) Refers to loans for which principal or interest is overdue.

Allowance for Impairment Losses on Loans to Customers

We assess our loans for impairment, determine the level of allowance for impairment losses and recognize any related provisions for a particular year based on the guidelines for impairment under IAS 39. Our loans are stated net of the allowance for impairment losses on our balance sheet.

Loans which are considered individually significant and those with unique credit characteristics are assessed individually for impairment losses. We perform individual assessments to determine the allowance for impairment losses against such loans, if there is objective evidence of impairment as a result of new events occurring after the initial recognition of loans that affect their estimated future cash flows. The allowance for impairment losses on loans is measured 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.

Loans which are assessed collectively for impairment include individually assessed loans without any objective evidence of impairment and homogeneous groups of loans which are not considered individually significant and not assessed individually. The collective impairment loss is assessed after taking into account: historical loss experience in portfolios of similar credit characteristics; the 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 our historical experience. The allowance for impairment losses on the collectively assessed loans is assessed based on our historical loss experience in similar portfolios and on prevailing economic conditions. For further discussion of individually assessed allowance and collectively assessed allowance, see Note 2(5)(ii) to Appendix I – "Accountants' Report".

The following table sets forth our allowance for impairment losses on loans to customers as of the dates indicated:

	As of December 31,						As of June 30,	
	2011		2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Individually assessed	436	27.1%	375	20.2%	228	12.2%	261	11.7%
Collectively assessed	1,174	72.9	1,485	79.8	1,651	87.8	1,961	88.3
Total	1,610	100.0%	1,860	100.0%	1,879	100.0%	2,222	100.0%

Allowance for Impairment Losses on Loans by Loan Classification

The following table sets forth the allocation of our allowance for impairment losses by the five loan classification categories as of the dates indicated:

	As of December 31,									As of June 30,		
	2011			2012			2013			2014		
	Amount	% of total	Allowance to loans[1]	Amount	% of total	Allowance to loans[1]	Amount	% of total	Allowance to loans[1]	Amount	% of total	Allowance to loans[1]
	(in millions of RMB, except percentages)											
Pass	926	57.5%	0.98%	1,130	60.8%	1.04%	1,527	81.2%	1.16%	1,859	83.6%	1.27%
Special mention	232	14.4	6.94%	331	17.8	6.66%	90	4.8	6.32%	58	2.6	5.58%
Substandard	116	7.2	46.40%	47	2.5	27.33%	60	3.2	18.02%	110	5.0	28.28%
Doubtful	55	3.4	63.95%	165	8.9	64.45%	139	7.4	64.06%	152	6.9	71.03%
Loss	281	17.5	100.00%	187	10.0	100.00%	63	3.4	100.00%	43	1.9	100.00%
Total	1,610	100.0%	1.64%	1,860	100.0%	1.63%	1,879	100.0%	1.41%	2,222	100.0%	1.50%

Note:

(1) Calculated by dividing the allowance for impairment losses on loans in each category by the total loans and advances in that category.

The following table sets forth the allocation of our allowance for impairment losses by business type and loan classification category as of the dates indicated:

	As of December 31,									As of June 30,		
	2011			2012			2013			2014		
	Amount	% of total	Allowance to loans(1)	Amount	% of total	Allowance to loans(1)	Amount	% of total	Allowance to loans(1)	Amount	% of total	Allowance to loans(1)
	(in millions of RMB, except percentages)											
Corporate loans												
Pass	924	57.4%	1.01%	1,128	60.7%	1.07%	1,526	81.2%	1.20%	1,858	83.6%	1.31%
Special mention	232	14.4	6.95%	331	17.8	6.66%	90	4.8	6.34%	57	2.6	5.57%
Substandard	116	7.2	46.40%	47	2.5	27.33%	60	3.2	18.07%	110	5.0	28.35%
Doubtful	45	2.8	70.31%	152	8.2	64.68%	124	6.6	62.94%	136	6.1	70.47%
Loss	275	17.1	100.00%	177	9.5	100.00%	43	2.3	100.00%	16	0.7	100.00%
Subtotal	1,592	98.9	1.66%	1,835	98.7	1.65%	1,843	98.1	1.42%	2,177	98.0	1.52%
Personal loans												
Pass	2	0.1	0.08%	2	0.1	0.07%	1	0.0	0.03%	1	0.0	0.02%
Special mention	–	–	–	–	–	–	–	–	–	1	0.0	6.25%
Substandard	–	–	–	–	–	–	–	–	–	–	–	–
Doubtful	10	0.6	45.45%	13	0.7	61.90%	15	0.8	75.00%	16	0.8	76.19%
Loss	6	0.4	100.00%	10	0.5	100.00%	20	1.1	100.00%	27	1.2	100.00%
Subtotal	18	1.1	0.71%	25	1.3	0.81%	36	1.9	0.93%	45	2.0	0.97%
Total	1,610	100.0%	1.64%	1,860	100.0%	1.63%	1,879	100.0%	1.41%	2,222	100.0%	1.50%

Note:

(1) Calculated by dividing the allowance for impairment losses on loans in each category by the total loans in that category.

Allowance for Impairment Losses by Product Type

The following table sets forth the allocation of our allowance for impairment losses on loans to customers by product type as of the dates indicated:

	As of December 31,									As of June 30,		
	2011			2012			2013			2014		
	Amount	% of total	Allowance to NPL(1)	Amount	% of total	Allowance to NPL(1)	Amount	% of total	Allowance to NPL(1)	Amount	% of total	Allowance to NPL(1)
	(in millions of RMB, except percentages)											
Corporate loans												
Short-term loans	638	39.6%	169.23%	785	42.2%	155.45%	665	35.4%	196.75%	986	44.4%	217.18%
Medium- and long-term loans	954	59.3	450.00%	1,050	56.5	1,329.11%	1,176	62.6	502.56%	1,187	53.4	830.07%
Subtotal	1,592	98.9	270.29%	1,835	98.7	314.21%	1,841	98.0	321.85%	2,173	97.8	363.99%
Discounted bills	–	–	–	–	–	–	2	0.1	0.00%	4	0.2	0.00%
Subtotal	1,592	98.9	270.29%	1,835	98.7	314.21%	1,843	98.1	322.20%	2,177	98.0	364.66%
Personal loans												
Mortgage loans	11	0.7	52.38%	14	0.7	70.00%	16	0.8	80.00%	16	0.7	76.19%
Personal consumption loans	–	–	–	–	–	–	–	–	–	–	–	–
Personal business loans	–	–	–	–	–	–	–	–	–	–	–	–
Credit card overdrafts	7	0.4	100.00%	11	0.6	100.00%	20	1.1	95.24%	29	1.3	103.57%
Others	–	–	–	–	–	–	–	–	–	–	–	–
Subtotal	18	1.1	64.29%	25	1.3	80.65%	36	1.9	87.80%	45	2.0	91.84%
Total	1,610	100.0%	260.94%	1,860	100.0%	302.44%	1,879	100.0%	306.53%	2,222	100.0%	343.96%

Note:

(1) Calculated by dividing the allowance for impairment losses on loans in each category by the total non-performing loans in that category.

As of December 31, 2011, 2012 and 2013 and June 30, 2014, the provision coverage ratios, which are the total allowance for impaired losses divided by total non-performing loans, were 260.94%, 302.44%, 306.53% and 343.96%, respectively.

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 June 30,		
	2011			2012			2013			2014		
	Amount	% of total	Allowance to NPL[1]	Amount	% of total	Allowance to NPL[1]	Amount	% of total	Allowance to NPL[1]	Amount	% of total	Allowance to NPL[1]
	(in millions of RMB, except percentages)											
Wholesale and retail	292	18.3%	183.65%	282	15.4%	316.85%	264	14.3%	628.57%	335	15.4%	1,155.17%
Manufacturing	328	20.7	107.19%	359	19.5	102.87%	351	19.0	119.80%	493	22.6	157.01%
Real estate	383	24.0	1,276.67%	574	31.3	2,296.00%	585	31.7	304.69%	546	25.1	580.85%
Leasing and commercial services	113	7.1	5,650.00%	91	4.9	4,550.00%	118	6.4	–	264	12.1	293.33%
Construction	204	12.8	523.08%	215	11.7	632.35%	229	12.4	789.66%	194	8.9	808.33%
Transportation, warehousing and postal services	32	2.0	1,066.67%	43	2.3	358.33%	37	2.0	–	60	2.8	–
Utilities supply	36	2.3	–	26	1.4	–	25	1.4	–	29	1.3	–
Mining	10	0.6	–	12	0.7	–	56	3.0	–	59	2.7	–
Public administration and social organization	56	3.5	–	87	4.7	–	71	3.9	–	59	2.7	–
Culture, sports and entertainment	19	1.2	475.00%	18	1.0	450.00%	19	1.0	1,900.00%	19	0.9	–
Household and other services	29	1.8	483.33%	19	1.1	380.00%	14	0.8	1,400.00%	21	1.0	–
Hotel and catering	32	2.0	103.23%	23	1.3	92.00%	25	1.4	227.27%	32	1.5	72.73%
Agriculture, forestry, animal husbandry and fishery	3	0.2	300.00%	18	1.0	1,800.00%	13	0.7	–	11	0.5	–
Others	55	3.5	687.50%	68	3.7	178.95%	34	1.9	1,133.33%	51	2.3	2,550.00%
Discounted bills	–	–	–	–	–	–	2	0.1	–	4	0.2	–
Total	1,592	100.0%	270.29%	1,835	100.0%	314.21%	1,843	100.0%	322.20%	2,177	100.0%	364.66%

Note:

(1) Calculated by dividing the allowance for impairment losses on loans in each category by the total non-performing loans in that category.

Allowance for Impairment Losses by Geographical Region

The following table sets forth the allocation of our allowance for impairment losses by geographical region as of the dates indicated:

	As of December 31,									As of June 30,		
	2011			2012			2013			2014		
	Amount	% of total	Allowance to NPL(1)	Amount	% of total	Allowance to NPL(1)	Amount	% of total	Allowance to NPL(1)	Amount	% of total	Allowance to NPL(1)
	(in millions of RMB, except percentages)											
Northeast China	1,452	90.2%	235.33%	1,675	90.1%	272.36%	1,685	89.7%	282.72%	1,881	84.7%	299.05%
North China	148	9.2	–	162	8.7	–	164	8.7	–	238	10.7	–
Other regions(2)	10	0.6	–	23	1.2	–	30	1.6	176.47%	103	4.6	605.88%
Total	1,610	100.0%	260.94%	1,860	100.0%	302.44%	1,879	100.0%	306.53%	2,222	100.0%	343.96%

Notes:

(1) Calculated by dividing the allowance for impairment losses on loans in each region by the total non-performing loans in that region.

(2) Other regions refer to those outlets not operating in Northeast China or North China.

Movements in Allowance for Impairment Losses on Loans to Customers

The following table sets forth the changes to the allowance for impairment losses on loans to customers for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2011	**2012**	**2013**	**2014**
	(in millions of RMB)			
Opening balance	1,251	1,610	1,860	1,879
Charge for the year	529	404	332	420
Release during the year	(83)	(52)	(147)	(34)
Unwinding of discount	(17)	(4)	(10)	(12)
Write-offs	(70)	(100)	(157)	(31)
Recoveries	–	–	1	–
Increase due to business merger	–	2	–	–
Closing balance	1,610	1,860	1,879	2,222

Allowance for impairment losses on loans to customers increased by 18.3% from RMB1,879 million as of December 31, 2013 to RMB2,222 million as of June 30, 2014, mainly because we gradually increased the loan provision ratio as a result of uncertainty in macroeconomic conditions.

Allowance for impairment losses on loans to customers increased by 1.0% from RMB1,860 million as of December 31, 2012 to RMB1,879 million as of December 31, 2013, mainly due to the growth of total loans, partly offset by the increasing write-off of certain non-performing loans in 2013.

Allowance for impairment losses on loans to customers increased by 15.5% from RMB1,610 million as of December 31, 2011 to RMB1,860 million as of December 31, 2012, mainly due to an increase in the volume of our loans.

Financial Investments

Overview

As of December 31, 2011, 2012 and 2013 and June 30, 2014, we held financial investments (including financial investments classified as loans and receivables, available-for-sale financial assets and held-to-maturity investments, but excluding financial assets designated at fair value through profit or loss) of RMB49,522 million, RMB66,671 million, RMB73,783 million and RMB116,604 million, representing 22.4%, 21.3%, 20.8% and 26.0%, respectively, of our total assets.

The following table sets forth the components of our financial investments as of the dates indicated:

	As of December 31,						As of June 30,	
	2011		2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Debt investments[1]	49,348	99.6%	66,495	99.7%	73,668	99.8%	116,328	99.8%
Equity investments[2]	174	0.4	176	0.3	115	0.2	276	0.2
Total	49,522	100.0%	66,671	100.0%	73,783	100.0%	116,604	100.0%

Notes:

(1) Includes government bonds, bonds issued by policy banks, bonds issued by other banks and non-bank financial institutions, corporate bonds, bills issued by central bank, directional asset management plans, investments in trust beneficiary rights and wealth management products purchased from financial institutions.

(2) Primarily consists of our equity investment in other banks.

Our total financial investments increased by 34.6% from RMB49,522 million as of December 31, 2011 to RMB66,671 million as of December 31, 2012, increased by 10.7% to RMB73,783 million as of December 31, 2013, and further increased by 58.0% to RMB116,604 million as of June 30, 2014. The movements in the balance of financial investments mainly reflected the optimization of our assets allocation in terms of continued growth in liabilities such as deposits from our customers and inter-bank deposits and the increase in debt investments including directional asset management plans and bonds issued by policy banks. See "Business – Our Principal Businesses – Treasury Business – Investments in Securities and Other Financial Assets" for further information.

Debt Investments

Substantially all of our financial investments are debt investments. As of December 31, 2011, 2012 and 2013 and June 30, 2014, debt investments accounted for 99.6%, 99.7%, 99.8% and 99.8%, respectively, of our financial investments.

Our debt investments include government bonds, bonds issued by policy banks, bonds issued by other banks and non-bank financial institutions, corporate bonds, bills issued by central bank, directional asset management plans, investments in trust beneficiary rights and wealth management products issued by other financial institutions. The following table sets forth the components of our debt investments as of the dates indicated:

	As of December 31,						As of June 30,	
	2011		2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Bond investments								
Government bonds	19,207	38.9%	16,483	24.8%	17,466	23.7%	17,672	15.2%
Bonds issued by policy banks	22,994	46.5	29,888	44.9	28,582	38.9	40,679	35.0
Bonds issued by other banks and non-bank financial institutions	924	1.9	1,461	2.2	1,987	2.7	1,594	1.4
Corporate bonds	–	–	–	–	920	1.2	1,303	1.1
Bills issued by central bank	2,793	5.7	2,698	4.1	–	–	–	–
Directional asset management plans	–	–	–	–	12,640	17.2	40,900	35.1
Investments in trust beneficiary rights	1,814	3.7	15,135	22.8	11,743	15.9	13,850	11.9
Wealth management products purchased from financial institutions	1,616	3.3	830	1.2	330	0.4	330	0.3
Total	49,348	100.0%	66,495	100.0%	73,668	100.0%	116,328	100.0%

Our debt investments increased by 34.7% from RMB49,348 million as of December 31, 2011 to RMB66,495 million as of December 31, 2012, primarily due to a significant increase in the balance of investment in trust beneficiary rights as a result of our investment in trust beneficiary rights with higher yield subject to effective risk control. Our debt investments increased by 10.8% from RMB66,495 million as of December 31, 2012 to RMB73,668 million as of December 31, 2013, mainly because we began to invest in directional asset management plans issued by asset management companies or securities companies in 2013. Such plans mainly intend to invest in negotiated deposits of other banks or bank acceptances held by corporate customers. Our debt investments increased by 57.9% from RMB73,668 million as of December 31, 2013 to RMB116,328 million as of June 30, 2014, mainly due to continued increases in the investment in directional asset management plans to increase our interest income.

Our bond investments include government bonds, bonds issued by policy banks, bonds issued by other banks and non-bank financial institutions and bills issued by the Central Bank. As of December 31, 2011, 2012 and 2013 and June 30, 2014, the balance of our bond investments was RMB45,918 million, RMB50,530 million, RMB48,955 million and RMB61,248 million, respectively, accounting for 93.0%, 76.0%, 66.5% and 52.7% of our debt investments, respectively. The decrease in the proportion of these types of investments to total debt investments was primarily due to adjustments to our overall investment portfolio to allocate more funds to investments with higher yields, including trust beneficiary rights and directional asset management plans.

As of December 31, 2013 and June 30, 2014, the balance of our directional asset management plans was RMB12,640 million and RMB40,900 million, accounting for 17.2% and 35.1% of our debt investments, respectively. The significant increase in this type of investment was primarily due to increased investment in directional asset management plans which had higher yields and manageable risks. For more information, see "Business – Our Principal Businesses – Treasury Business – Investments in Securities and Other Financial Assets – Investments in Debt Instruments Issued by Financial Institutions – Directional Asset Management Plans".

Our investments in trust beneficiary rights increased significantly from RMB1,814 million as of December 31, 2011 to RMB15,135 million as of December 31, 2012, mainly because in light of the trend of financial disintermediation and interest rates liberalization, we maintained and developed businesses with customers through diversified financial instruments by increasing investments in trust beneficiary rights with high return to increase the overall return of our assets. Our investments in trust beneficiary rights decreased by 22.4% from RMB15,135 million as of December 31, 2012 to RMB11,743 million as of December 31, 2013, mainly due to further optimization of asset structure and transferred investments in certain trust beneficiary rights. Our investments in trust beneficiary rights increased by 17.9% from RMB11,743 million as of December 31, 2013 to RMB13,850 million as of June 30, 2014, mainly because we continued to increase our investments. See "Business – Our Principal Businesses – Treasury Business – Investments in Securities and Other Financial Assets – Investments in Debt Instruments Issued by Financial Institutions – Trust Beneficiary Rights" and "Risk Factors – Risks Relating to Our Business – We have used funds at our disposable to invest in trust beneficiary rights, and any adverse changes with respect of this type of investment may have a material adverse effect on our profitability and liquidity of assets" for further information.

As of December 31, 2011, 2012 and 2013 and June 30, 2014, the balance of our wealth management products purchased from financial institutions was RMB1,616 million, RMB830 million, RMB330 million and RMB330 million, accounting for 3.3%, 1.2%, 0.4% and 0.3% of our debt investments, respectively. The decrease in the balance of this type of investment was mainly because (i) certain wealth management products of financial institutions came to maturity; and (ii) we decided to reduce the investments in this asset type due to its higher risk weighting of 100% (compared to other assets of lower risk weighting such as government bonds and bonds issued by policy banks which have a 0% risk weighting and directional asset management plans which have a risk weighting of 25%) in order to optimize capital allocations by increasing investments in lower risk weighted assets with generating stable investment returns.

As of June 30, 2014, all of the debt investments we held were denominated in RMB.

The following table sets forth the distribution of our debt investments between fixed interest rate and floating interest rate as of the dates indicated:

	As of December 31,						As of June 30,	
	2011		2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Fixed interest rate	41,690	84.5%	55,716	83.8%	62,815	85.3%	105,689	90.9%
Floating interest rate	7,658	15.5	10,779	16.2	10,853	14.7	10,639	9.1
Total	49,348	100.0%	66,495	100.0%	73,668	100.0%	116,328	100.0%

Equity Investments

Our equity investments of RMB174 million, RMB176 million, RMB115 million and RMB276 million as of December 31, 2011, 2012 and 2013 and June 30, 2014, respectively, mainly represent the Bank's equity investment in Dandong Bank Co., Ltd. (丹東銀行股份有限公司) and Fuxin Bank Co., Ltd. (阜新銀行股份有限公司) in 2011 and 2012, respectively. The decrease in equity investment from 2012 to 2013 mainly reflects the disposal of the entire equity interest in Fuxin Bank Co., Ltd. in 2013. The increase in the six months ended June 30, 2014 was primarily due to reclassification of our investment in Benxi Commercial Bank (本溪市商業銀行股份有限公司) from investment in associates to equity investment due to the reduced percentage of our shareholdings as of June 30, 2014.

Remaining Maturity of Our Financial Investments

The following table sets forth the balance of our financial investments by remaining maturity as of June 30, 2014:

	As of June 30, 2014					
	Due 3 months or less	**Due between 3 months and 1 year**	**Due between 1 and 5 years**	**Due more than 5 years**	**Indefinite**	**Total**
	(in millions of RMB)					
Financial investments classified as loans and receivables. . .	12,568	34,210	8,902	–	–	55,680
Held-to-maturity investments	2,509	4,353	16,991	17,667	–	41,520
Available-for-sale financial assets. . .	800	4,235	4,344	9,749	276	19,404
Total	15,877	42,798	30,237	27,416	276	116,604

Financial Investments by Investment Intention

Our financial investments (excluding financial assets at fair value through profit or loss) are classified into (i) held-to-maturity investments; (ii) financial investments classified as loans and receivables; and (iii) available-for-sale financial assets, primarily based on our investment intentions. See Note 2(5)(i) to Appendix I – "Accountants' Report" to this prospectus for the basis of such classification.

The following table sets forth the components of our financial investments by investment intention as of the dates indicated:

	As of December 31,						As of June 30,	
	2011		2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Financial investments classified as loans and receivables	2,139	4.3%	15,965	23.9%	25,313	34.3%	55,680	47.8%
Held-to-maturity investments	28,718	58.0	28,050	42.1	35,400	48.0	41,520	35.6
Available-for-sale financial assets	18,665	37.7	22,656	34.0	13,070	17.7	19,404	16.6
Total	49,522	100.0%	66,671	100.0%	73,783	100.0%	116,604	100.0%

Our financial investments classified as loans and receivables were RMB2,139 million, RMB15,965 million, RMB25,313 million and RMB55,680 million as of December 31, 2011, 2012 and 2013 and June 30, 2014, respectively. Our financial investments classified as loans and receivables increased significantly from RMB2,139 million as of December 31, 2011 to RMB15,965 million as of December 31, 2012, primarily due to a significant increase in our investments in trust beneficiary rights. Our financial investments classified as loans and receivables increased by 58.6% from RMB15,965 million as of December 31, 2012 to RMB25,313 million as of December 31, 2013, and significantly increased to RMB55,680 million as of June 30, 2014, primarily because we started to invest in directional asset management plans in 2013 and continued to increase our investments.

Our held-to-maturity investments were RMB28,718 million, RMB28,050 million, RMB35,400 million and RMB41,520 million as of December 31, 2011, 2012 and 2013 and June 30, 2014, respectively. Our held-to-maturity investments decreased by 2.3% from RMB28,718 million as of December 31, 2011 to RMB28,050 million as of December 31, 2012, primarily because certain bonds became due. Our held-to-maturity investments increased by 26.2% from RMB28,050 million as of December 31, 2012 to RMB35,400 million as of December 31, 2013, primarily because we increased held-to-maturity investments in light of a potential downward trend of the market interest rate to enhance the income of debt securities. Our held-to-maturity investments increased by 17.3% from RMB35,400 million as of December 31, 2013 to RMB41,520 million as of June 30, 2014, primarily because we increased held-to-maturity investments with higher yields which resulted in an overall increase in related investment size.

Our available-for-sale financial assets were RMB18,665 million, RMB22,656 million, RMB13,070 million and RMB19,404 million as of December 31, 2011, 2012 and 2013 and June 30, 2014, respectively. Our available-for-sale financial assets increased by 21.4% from RMB18,665 million as of December 31, 2011 to RMB22,656 million as of December 31, 2012. The increase was primarily due to a moderate increase in our investments in available-for-sale financial assets as a result of our increased total deposits and a higher level of market interest rates. Our available-for-sale financial assets decreased by 42.3% from RMB22,656 million as of December 31, 2012 to RMB13,070 million as of December 31, 2013, primarily because we aimed to realize gains through disposal of part of our available-for-sale financial assets to enhance investment returns in light of the downturn of bond market yields for the first half of 2013. Our available-for-sale financial assets increased by 48.5% from RMB13,070 million as of December 31, 2013 to RMB19,404 million as of June 30, 2014, primarily because we increased our holdings in available-for-sale financial assets to enhance investment returns in light of the upward movement in interest rates in early 2014.

Carrying Value and Fair Value

All financial investments classified as available-for-sale financial assets at fair value through profit or loss are stated at fair value. See Note 2(5)(ii) to Appendix I – "Accountants' Report" for the accounting policy relating to allowance for impairment loss of financial assets. The following table sets forth the net carrying value and the fair value of the financial investments classified as loans and receivables and held-to-maturity securities as of the dates indicated:

	As of December 31,						As of June 30,	
	2011		2012		2013		2014	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
	(in millions of RMB, except percentages)							
Held-to-maturity investments	28,718	28,769	28,050	27,867	35,400	33,296	41,520	40,521
Financial investments classified as loans and receivables	2,139	2,139	15,965	16,571	25,313	25,945	55,680	56,475
Total	30,857	30,908	44,015	44,438	60,713	59,241	97,200	96,996

Investment Concentration

The table below sets forth our holdings in financial investments and other financial assets with their respective carrying value exceeding 5.0% of our shareholders' equity:

	As of June 30, 2014			
	Carrying value	% of financial investments and other financial assets	% of our shareholders' equity	Market/fair value
	(in millions of RMB, except percentages)			
Investment A	2,549	2.19%	9.96%	2,501
Investment B	2,000	1.71%	7.81%	2,000
Investment C	1,998	1.71%	7.80%	1,901
Investment D	1,650	1.42%	6.45%	1,610
Investment E	1,550	1.33%	6.05%	1,550
Investment F	1,458	1.25%	5.70%	1,458
Total	11,205	9.61%	43.77%	11,020

Debt Securities Issued by Financial Institutions

Debt securities issued by financial institutions in our investment in securities primarily include bonds issued by policy banks and commercial banks. As of June 30, 2014, we held debt securities issued by financial institutions in an aggregate amount of RMB42,273 million, of which RMB40,679 million was financial bonds issued by policy banks and RMB1,594 million was bonds issued by other banks and non-bank financial institutions. The table below sets forth the ten largest debt securities issued by banks and non-bank financial institutions as of the date indicated:

	As of June 30, 2014		
	Principal amount (in millions of RMB)	Annual interest rate	Maturity date
Investment A	2,550	3.45%	9/17/2019
Investment B	2,000	4.01%	11/4/2020
Investment C	1,650	3.95%	2/1/2018
Investment D	1,130	4.03%	8/27/2029
Investment E	1,020	4.11%	8/19/2019
Investment F	1,000	3.41%	6/24/2020
Investment G	1,000	4.80%	10/30/2014
Investment H	1,000	4.92%	6/29/2019
Investment I	1,000	4.55%	3/18/2015
Investment J	1,000	4.86%	9/26/2020

Components of Our Other Assets

In addition to loans and advances to customers and financial investments, our other assets include (i) deposits with banks and other financial institutions; (ii) cash and deposits with central bank; (iii) financial assets purchased under resale agreements; (iv) placements with and loans to banks and other financial institutions; (v) financial assets at fair value through profit or loss; and (vi) other assets. As of December 31, 2011, 2012 and 2013 and June 30, 2014, our assets other than loans to customers and financial investments were RMB74,923 million, RMB134,300 million, RMB150,091 million and RMB187,000 million, respectively.

Deposits with banks and other financial institutions, net of the allowance for impairment losses, increased substantially from RMB16,235 million as of December 31, 2011 to RMB62,276 million as of December 31, 2012, and then decreased by 0.1% to RMB62,233 million as of December 31, 2013, and increased by 52.0% to RMB94,578 million as of June 30, 2014. The changes from December 31, 2011 to June 30, 2014 were primarily due to our adjustments to the holdings of these assets to meet liquidity needs according to our liquidity condition and the movement of interest rates on deposits with banks and other financial institutions given the generally higher liquidity and lower risk associated with deposits with banks and other financial institutions.

Cash and deposits with the central bank primarily include cash, statutory deposit reserves and surplus deposit reserves. Statutory deposit reserves represent the minimum amount of cash we are required to deposit with the PBOC, which is determined as a percentage of total deposits from customers. Surplus deposit reserves are deposits with the PBOC in excess of statutory deposit reserves, which are for payments and settlements. Cash and deposits with the central bank increased by 11.5% from RMB48,145 million as of December 31, 2011 to RMB53,692 million as of December 31, 2012, and increased by 21.5% to RMB65,238 million as of December 31, 2013, and further increased by 4.8% to RMB68,394 million as of June 30, 2014. The increase in cash and deposits with the central bank during the period was primarily due to a substantial increase in statutory deposit reserves resulting from the growth in total deposits.

Our financial assets purchased under resale agreements increased substantially from RMB4,274 million as of December 31, 2011 to RMB8,930 million as of December 31, 2012, and then increased by 75.9% to RMB15,706 million as of December 31, 2013, and further decreased by 2.3% to RMB15,350 million as of June 30, 2014. The movement in our financial assets purchased under resale agreements during the period was primarily because we conducted appropriate capital operations to adjust our liquidity according to our general financial position and market interest rates.

Placements with banks and other financial institutions (net of allowance for impairment losses) increased from nil as of December 31, 2011 to RMB3,000 million as of December 31, 2012 and decreased substantially to RMB61 million as of December 31, 2013, but then increased to RMB384 million as of June 30, 2014, primarily due to our adjustment of short-term fund lending activities to adjust short-term liquidity according to actual market needs.

Our financial assets at fair value through profit or loss decreased from RMB305 million as of December 31, 2011 to RMB301 million as of December 31, 2012, and further decreased to nil as of December 31, 2013 and nil as of June 30, 2014, mainly because we decreased such financial assets as a result of the effect on our current profit or loss from changes in fair value resulting from market interest rate movements.

Our other assets increased by 2.3% from RMB5,964 million as of December 31, 2011 to RMB6,101 million as of December 31, 2012, and further increased by 12.3% to RMB6,853 million as of December 31, 2013 and by 21.0% to RMB8,294 million as of June 30, 2014, which was primarily due to the increase in properties and equipment and interest receivables.

LIABILITIES AND SOURCES OF FUNDS

Our total liabilities as of December 31, 2011, 2012 and 2013 and June 30, 2014 were RMB209,849 million, RMB298,584 million, RMB333,962 million and RMB423,525 million, respectively. The principal components of our liabilities were (i) deposits from customers; (ii) deposits from banks and other financial institutions; and (iii) financial assets sold under repurchase agreement, which accounted for 70.0%, 16.2% and 10.7%, respectively, of our total liabilities as of June 30, 2014.

Customer deposits constitute the largest component of our total liabilities, accounting for 81.7%, 69.6%, 78.6% and 70.0% of our total liabilities as of December 31, 2011, 2012 and 2013 and June 30, 2014, respectively. The following table sets forth the components of our total liabilities as of the dates indicated:

	As of December 31,						As of June 30,	
	2011		2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Deposits from customers	171,474	81.7%	207,987	69.6%	262,913	78.6%	295,934	70.0%
Deposits from banks and other financial institutions	13,138	6.3	38,554	12.9	41,327	12.4	68,816	16.2
Financial assets sold under repurchase agreement	19,143	9.1	40,773	13.7	20,919	6.3	45,391	10.7
Debt securities issued	2,100	1.0	2,100	0.7	900	0.3	3,100	0.7
Placements from banks and other financial institutions	1,560	0.7	5,620	1.9	1,190	0.4	1,717	0.4
Others[1]	2,434	1.2	3,550	1.2	6,713	2.0	8,567	2.0
Total	209,849	100.0%	298,584	100.0%	333,962	100.0%	423,525	100.0%

Note:

(1) Includes interest payable, amounts due from/to settlement accounts, salaries payable, deferred income, tax payable, amounts in dormant accounts and other liabilities.

Deposits from Customers

We provide demand and time deposit products to corporate and personal customers. The following table sets forth our deposits from customers and product types as of the dates indicated:

	As of December 31,						As of June 30,	
	2011		2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Corporate								
Demand	73,556	42.9%	72,331	34.8%	76,536	29.1%	71,956	24.3%
Time	33,620	19.6	53,950	25.9	91,621	34.9	112,949	38.1
Other(1)	16,489	9.6	19,785	9.5	19,034	7.2	26,207	8.9
Subtotal	123,665	72.1	146,066	70.2	187,191	71.2	211,112	71.3
Personal								
Demand	10,713	6.2	10,464	5.0	11,234	4.3	12,435	4.2
Time	37,076	21.7	51,457	24.8	64,488	24.5	72,387	24.5
Other(1)	20	0.0	–	–	–	–	–	–
Subtotal	47,809	27.9	61,921	29.8	75,722	28.8	84,822	28.7
Total	171,474	100.0%	207,987	100.0%	262,913	100.0%	295,934	100.0%

Note:

(1) Primarily includes pledged deposits held as collateral for loans.

Deposits from customers by Business Type

Corporate Deposits

Corporate deposits represent a significant portion of our deposits from customers. As of December 31, 2011, 2012 and 2013 and June 30, 2014, our corporate deposits accounted for 72.1%, 70.2%, 71.2% and 71.3%, respectively, of our deposits from customers.

Corporate deposits increased by 18.1% from RMB123,665 million as of December 31, 2011 to RMB146,066 million as of December 31, 2012, increased by 28.2% to RMB187,191 million as of December 31, 2013, and further increased by 12.8% to RMB211,112 million as of June 30, 2014, mainly due to (i) the continued growth of our corporate deposit business as a result of the economic growth of Northeast China; (ii) the continued growth in the number of branches and outlets outside Northeast China and increases in business volume, in particular, our Beijing Branch, Tianjing Branch and Shanghai Branch; and (iii) we are one of the first groups of banks to promote the policy of directly increasing the deposit interest rate to 110% of the benchmark rate, which has promoted the growth of corporate time deposits.

Personal Deposits

Personal deposits increased by 29.5% from RMB47,809 million as of December 31, 2011 to RMB61,921 million as of December 31, 2012, increased by 22.3% to RMB75,722 million as of December 31, 2013, and further increased by 12.0% to RMB84,822 million as of June 30, 2014, mainly due to (i) the continued growth of personal deposits as a result of our strength in payroll services and collection and payment agency services; (ii) the sustained growth in the number of outlets inside and outside Northeast China and increases in business volume which contributed to the growth of personal deposits; and (iii) we are one of the first groups of banks to adopt the policy of directly increasing the deposit interest rate to 110% of the benchmark rate, which has promoted the growth of personal deposits.

Deposits from Customers by Product Type

As of December 31, 2011, 2012 and 2013 and June 30, 2014, time deposits accounted for 41.3%, 50.7%, 59.4% and 62.6%, respectively, while demand deposits accounted for 49.1%, 39.8%, 33.4% and 28.5%, respectively, of our total deposits from customers. From December 31, 2011 to June 30, 2014, the percentage of time deposits to our total deposits from customers increased, mainly reflecting the changes in deposit customers' preference for demand deposits while we moderately increased the proportion of time deposits to total deposits to optimize the maturity profile of our deposits and improve the stability of our deposit portfolio.

Deposits from Customers by Geographical Region

We classify the geographic distribution of deposits based on the location of the branch that takes the deposits. The following table sets forth the geographic distribution of our deposits from customers as of the dates indicated:

	As of December 31,						As of June 30,	
	2011		2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Northeast China	131,070	76.4%	152,115	73.1%	178,695	68.0%	197,240	66.6%
North China	37,907	22.1	51,705	24.9	76,221	29.0	87,156	29.5
Other regions[(1)]	2,497	1.5	4,167	2.0	7,997	3.0	11,538	3.9
Total	171,474	100.0%	207,987	100.0%	262,913	100.0%	295,934	100.0%

Note:

(1) Other regions refer to those outlets not operating in Northeast China or North China.

Maturity Profile of Deposits from Customers

A majority of our deposits from customers as of June 30, 2014 were demand deposits or deposits that mature in twelve months or less. The following table sets forth the distribution of our deposits from customers by maturity as of the date indicated:

	As of June 30, 2014					
	Demand	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
	(in millions of RMB)					
Corporate deposits	74,314	43,967	47,628	44,504	699	211,112
Personal deposits	12,435	1,299	36,962	34,125	1	84,822
Total	86,749	45,266	84,590	78,629	700	295,934

Deposits from Customers by Currency

Substantially all of our deposits from customers are denominated in Renminbi. The following table sets forth the distribution of our deposits from customers by currency as of the dates indicated:

	As of December 31,						As of June 30,	
	2011		2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Renminbi deposits	170,324	99.3%	206,893	99.5%	262,102	99.7%	293,816	99.2%
US dollar deposits	379	0.2	481	0.2	368	0.1	1,780	0.6
Hong Kong dollar deposits	601	0.4	443	0.2	274	0.1	156	0.1
Other foreign currency deposits	170	0.1	170	0.1	169	0.1	182	0.1
Total.	171,474	100.0%	207,987	100.0%	262,913	100.0%	295,934	100.0%

Corporate Deposits by Size

The following table sets forth the distribution of our corporate deposits by total balance of deposits from a single customer as of the dates indicated:

	As of December 31,						As of June 30,	
	2011		2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Below RMB10 million . .	10,795	8.7%	11,111	7.6%	11,453	6.1%	10,389	4.9%
Over RMB10 million (inclusive) to RMB100 million (inclusive) . . .	27,382	22.1	31,887	21.8	30,401	16.2	33,171	15.7
Over RMB100 million . .	85,488	69.2	103,068	70.6	145,337	77.7	167,552	79.4
Total.	123,665	100.0%	146,066	100.0%	187,191	100.0%	211,112	100.0%

Other Liabilities

In addition to deposits from customers, other major components of our liabilities are (i) deposits from banks and other financial institutions, and (ii) financial assets sold under repurchase agreement.

Deposits from banks and other financial institutions increased substantially from RMB13,138 million as of December 31, 2011 to RMB38,554 million as of December 31, 2012, increased by 7.2% to RMB41,327 million as of December 31, 2013, and further increased by 66.5% to RMB68,816 million as of June 30, 2014. The increase during the period was primarily due to (i) our broaden cooperation with other banks, as we broadened the sources of indebtedness to match the increasing scale of our treasury business, and as other banks significantly increased their deposits with us, and (ii) our arrangement to manage liquidity.

Financial assets sold under repurchase agreements increased significantly from RMB19,143 million as of December 31, 2011 to RMB40,773 million as of December 31, 2012, decreased by 48.7% to RMB20,919 million as of December 31, 2013 and increased significantly to RMB45,391 million as of June 30, 2014. The changes during the periods are primarily because we adjusted our liquidity and optimized the assets and liabilities structure based on our overall financial position and market interest rates by carrying out necessary short-term capital activities.

You should read the discussion and analysis set forth in this section in conjunction with Appendix I – "Accountants' Report" to this prospectus, which has been prepared in accordance with IFRS, together with the accompanying notes. Capital adequacy ratios discussed in this section are calculated in accordance with applicable CBRC guidelines and based on PRC GAAP financial information. The capital adequacy indicators discussed in this section are not part of the Accountants' Report and have not been audited.

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".

OVERVIEW

Headquartered in Shenyang, Liaoning Province, we are one of the first city commercial banks established in Northeast China, giving us an early-mover advantage in both business scale (in terms of total assets and net profits) and performance. As of December 31, 2011, 2012 and 2013 and June 30, 2014, our loans to customers were RMB98,372 million, RMB114,131 million, RMB133,437 million and RMB147,745 million, respectively; and as of the same dates, our total customer deposits were RMB171,474 million, RMB207,987 million, RMB262,913 million and RMB295,934 million, respectively. From 2011 to 2013, our operating income grew at a CAGR of 28.3% from RMB5,414 million to RMB8,905 million and our net profit grew at a CAGR of 36.8% from RMB2,612 million to RMB4,889 million. In 2014, our profits on Tier 1 capital ranked 83rd globally and ranked 7th in the PRC, and our return on assets ranked 214th globally and ranked 25th in the PRC banking industry in the list compiled by The Banker.

GENERAL FACTORS THAT AFFECT OUR RESULTS OF OPERATIONS

Economic Conditions of the PRC and Liaoning Province

We are headquartered in Shenyang, Liaoning Province, the PRC. Our financial condition and results of operations are affected by the economic conditions of the PRC and the economic measures taken by the PRC government, in particular the factors relating to the economic development in Liaoning Province. The PRC has experienced rapid growth over the past three decades. According to data released by the NBSC, from 2009 to 2013 the PRC's nominal GDP increased at a CAGR of 13.7% and fixed asset investments in the PRC increased at a CAGR of 18.8%. The PRC's economic growth has resulted in a substantial increase in corporate activities and individual wealth, which has in turn promoted the rapid business growth of PRC commercial banks.

In recent years, the PRC government has implemented a series of macroeconomic and monetary policies, including (i) adjusting the benchmark interest rates and the PBOC statutory deposit reserve ratio applicable to commercial banks; (ii) imposing lending limits to control the growth of bank loans; (iii) imposing restrictions on residential mortgage loans and loans to property developers to curb overheating of the real estate market; and (iv) promoting the growth of certain industries or controlling overheating and overcapacity in certain other industries by issuing industry development guidelines. Many of these policies have had a significant impact on lending activities and the demand for and access to bank financing, which in turn has significantly affected our financial condition and results of operations.

Liaoning Province is located in Northeast China. Benefiting from the PRC government's Strategy of Revitalization of the Old Industrial Base in Northeast China and the advantages of Liaoning Province in terms of policy support and concentration of industries, Liaoning Province has maintained rapid economic growth in recent years. From 2009 to 2013, Liaoning Province's nominal GDP increased at a CAGR of 15.5% and the fixed asset investments in Liaoning Province increased at a CAGR of 19.6%. During the Track Record Period, our operating income was primarily from Liaoning Province. For the years ended December 31, 2011, 2012 and 2013, our operating income generated from Liaoning Province accounted for 78.2%, 81.7% and 84.0%, respectively, of our total operating income.

Regulatory Environment

The PRC commercial banking industry is highly regulated. Our business, financial condition and results of operations are materially affected by changes in PRC banking laws, rules, regulations and policies such as the scope of business activities PRC commercial banks are permitted to engage in, interests and fees PRC commercial banks are allowed to charge and restrictions imposed by regulatory bodies on PRC commercial banks in respect of credit extension to borrowers in specific industries or specific loan products. PRC commercial banks are mainly regulated by the CBRC and the PBOC and are also subject to supervision and regulation by other regulatory bodies such as the MOF, the SAFE, the CSRC and the CIRC. See "Supervision and Regulation".

Our results of operations are also subject to changes in tax laws and regulations since these changes can affect our deferred tax assets and liabilities and our income tax expenses. In addition, the CBRC, the CSRC and the CIRC also require special licenses for certain banking services. The CBRC and the CSRC may impose license requirements in the future on existing or new financial services, which may affect our business and results of operations.

Interest Rates

Our results of operations largely depend on our net interest income. For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, our net interest income accounted for 98.7%, 98.2%, 88.1% and 88.2% of our total operating income, respectively. Net interest income is affected by interest rates and the balance of our interest-earning assets and interest-bearing liabilities. Interest rates applicable to us are sensitive to many factors that are beyond our control such as the regulations in the banking and financial sectors in the PRC and domestic and international economic and political conditions and competition.

In the PRC, interest rates on RMB-denominated loans and deposits are set by commercial banks within a permitted range with reference to the benchmark interest rates on loans and deposits published and modified from time to time by the PBOC. Under current PBOC regulations, commercial banks in the PRC generally may not set interest rates for RMB-denominated deposits above 120% of the PBOC benchmark interest rate on deposits. See "Supervision and Regulation – Pricing of Product and Services – Interest Rates on Loans and Deposits". Changes in the PBOC benchmark interest rates may materially affect the average yield on outstanding loans and the average cost of customer deposits of PRC commercial banks, which in turn may have a material impact on the bank's net interest spread and net interest margin. See "– Quantitative and Qualitative Analysis of Market Risk – Interest Rate Risk – Repricing Gap Analysis" for a repricing gap analysis on our interest-earning assets and interest-bearing liabilities.

In recent years, the PRC government has taken measures to gradually liberalize interest rates. For example, the PBOC lifted restrictions on inter-bank market interest rates, bond market interest rates and interest rates on foreign currency deposits, and removed the interest rate cap on RMB-denominated loans and the interest rate floor for RMB-denominated deposits. In July 2013, the PBOC removed the interest rate floor for RMB-denominated loans. With the introduction of SHIBOR in 2007 by the National Inter-bank Funding Center, a market interest rate system based on SHIBOR has been gradually established. As the PRC government continues its policy of liberalizing interest rates on loans and deposits, we expect inter-bank competition on interest rates to play an increasingly important role in the pricing of loans and deposits.

Competitive Landscape in the Banking Industry

Our operations are mainly affected by the competition in the banking industry of Liaoning Province and the competition in the banking industry where our branches and sub-branches in other cities are located, including Beijing, Tianjin, Shanghai and Changchun. In Liaoning Province, we mainly compete with branches of major commercial banks, branches of joint-stock commercial banks and city commercial banks. We also face competition from banking institutions. In recent years, a large number of commercial banks in the PRC have completed restructurings or public offerings, which have permitted them to offer more innovative products and higher quality services, and have afforded them greater adaptability in a changing market environment. The increase in competition and the resulting changes in the PRC banking industry may affect the pricing of our loans and deposits and the pricing of and income from our intermediary banking business. See "Industry Overview" and "Business – Competition".

SELECTED FINANCIAL DATA

The following table sets forth our statements of comprehensive income for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2011	**2012**	**2013**	**2013** (unaudited)	**2014**
	(in millions of RMB)				
Interest income	10,177	13,835	18,038	8,311	11,876
Interest expense	(4,832)	(7,051)	(10,194)	(4,678)	(7,256)
Net interest income	5,345	6,784	7,844	3,633	4,620
Fee and commission income	105	156	828	306	746
Fee and commission expense	(40)	(44)	(58)	(25)	(40)
Net fee and commission income	65	112	770	281	706
Net trading (losses)/gains	(30)	3	(2)	1	6
Net (losses)/gains arising from financial investments	(11)	(32)	208	93	(112)
Other operating income	45	41	85	11	19
Operating income	5,414	6,908	8,905	4,019	5,239
Operating expenses	(1,727)	(2,017)	(2,445)	(1,144)	(1,590)
Impairment losses on assets	(446)	(432)	(172)	(143)	(369)
Operating profit	3,241	4,459	6,288	2,732	3,280
Share of profits of associates	34	24	20	22	2
Profit before taxation	3,275	4,483	6,308	2,754	3,282
Income tax expense	(663)	(974)	(1,419)	(592)	(777)
Profit for the year/period	2,612	3,509	4,889	2,162	2,505

The following table sets forth our consolidated statements of financial position as of the dates indicated:

	As of December 31,			As of June 30,
	2011	2012	2013	2014
	(in millions of RMB)			
Assets				
Cash and deposits with central bank	48,145	53,692	65,238	68,394
Deposits with banks and other financial institutions	16,235	62,276	62,233	94,578
Placements with banks and other financial institutions	–	3,000	61	384
Financial assets at fair value through profit or loss	305	301	–	–
Financial assets held under resale agreements	4,274	8,930	15,706	15,350
Loans and advances to customers	96,762	112,271	131,558	145,523
Financial investments:				
Financial investment classified as loans and receivables	2,139	15,965	25,313	55,680
Available-for-sale financial assets	18,665	22,656	13,070	19,404
Held-to-maturity investments	28,718	28,050	35,400	41,520
Interest in associates	390	267	287	–
Property and equipment	2,401	2,418	2,522	3,009
Deferred tax assets	37	176	238	159
Other assets	3,136	3,240	3,806	5,126
Total assets	221,207	313,242	355,432	449,127
Liabilities				
Deposits from banks and other financial institutions	13,138	38,554	41,327	68,816
Placements from banks and other financial institutions	1,560	5,620	1,190	1,717
Financial assets sold under repurchase agreements	19,143	40,773	20,919	45,391
Deposits from customers	171,474	207,987	262,913	295,934
Income tax payable	1	264	424	376
Debt securities issued	2,100	2,100	900	3,100
Other liabilities	2,433	3,286	6,289	8,191
Total liabilities	209,849	298,584	333,962	423,525
Equity				
Share capital	3,696	3,696	4,096	4,396
Capital reserve	2,022	2,022	3,822	5,172
Surplus reserve	875	1,223	1,709	2,194
General reserve	1,117	1,224	3,318	3,546
Investment revaluation reserve	247	28	(252)	136
(Deficit)/surplus on remeasurement of net defined benefit liability	(1)	–	3	1
Retained earnings	3,402	6,073	8,359	9,730
Non-controlling interests	–	392	415	427
Total equity	11,358	14,658	21,470	25,602
Total liabilities and equity	221,207	313,242	355,432	449,127

The following table sets forth selected financial ratios for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2011	2012	2013	2014
Profitability indicators				
Return on average total assets(1)(7)	1.24%	1.31%	1.46%	1.25%
Return on average equity(2)(7)	28.47%	26.98%	27.06%	21.29%
Net interest spread(3)(7)	2.59%	2.52%	2.17%	2.07%
Net interest margin(4)(7)	2.70%	2.68%	2.39%	2.31%
Net fee and commission income to operating income(5)	1.20%	1.62%	8.65%	13.48%
Cost-to-income ratio(6)	23.97%	20.80%	19.00%	21.17%

Notes:

(1) Represents the net profit for the period as a percentage of the average balance of total assets at the beginning and the end of the period.

(2) Represents the net profit for the period as a percentage of the average balance of total shareholders' equity at the beginning and at the end of the period.

(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 daily average balance of total interest-earning assets.

(5) Calculated by dividing net fee and commission income by operating income.

(6) Calculated by dividing total operating expenses (excluding business tax and surcharges) by operating income.

(7) Calculated on an annual basis.

	As of December 31,			As of June 30,
	2011	2012	2013	2014
Capital adequacy indicators				
Calculated based on Capital Adequacy Measures				
Core capital adequacy ratio[1]	8.92%	9.39%	N/A	N/A
Capital adequacy ratio[2]	12.02%	11.92%	N/A	N/A
Calculated based on Capital Administrative Measures				
Core Tier 1 capital adequacy ratio[3]	N/A	N/A	10.07%	9.77%
Tier 1 capital adequacy ratio[4]	N/A	N/A	10.07%	9.77%
Capital adequacy ratio[5]	N/A	N/A	11.17%	11.61%
Total equity to total assets . . .	5.1%	4.7%	6.0%	5.7%
Asset quality indicators				
Non-performing loan ratio[6] .	0.63%	0.54%	0.46%	0.44%
Allowance to non-performing loans[7]	260.94%	302.44%	306.53%	343.96%
Allowance to total loans[8] . . .	1.64%	1.63%	1.41%	1.50%
Other indicators				
Loan-to-deposit ratio	57.37%	54.87%	50.75%	49.92%

Notes:

(1) Core capital adequacy ratio = (core capital - core capital deductions)/(risk-weighted assets + 12.5 x capital charge for market risk).

(2) Capital adequacy ratio = (total capital - capital deductions)/(risk-weighted assets + 12.5 x capital charge for market risk).

(3) Core Tier 1 capital adequacy ratio = (core Tier 1 capital - core Tier 1 capital deductions)/risk-weighted assets.

(4) Tier 1 capital adequacy ratio = (Tier 1 capital - Tier 1 capital deductions)/risk-weighted assets.

(5) Capital adequacy ratio = (total capital - capital deductions)/risk-weighted assets.

(6) Non-performing loan ratio = total non-performing loans/total loans and advances to customers.

(7) Allowance to non-performing loans = the allowance for impairment losses/total non-performing loans.

(8) Allowance to total loans = the allowance for impairment losses on total loans and advances to customers/total loans and advances to customers.

Our return on average total assets increased from 1.24% in 2011 to 1.31% in 2012 and 1.46% in 2013, because our net profit grew at a faster rate than our average total assets during this period. Our return on average equity decreased from 28.47% in 2011 to 26.98% in 2012, mainly due to the fact that our average equity grew at a faster rate than our net profit during this period. Our total average equity grew at a rapid pace in 2012, mainly due to the capital increase of RMB1,500 million by Founder Securities in 2011, leading to a higher average equity in 2012. Our return on average equity increased from 26.98% in 2012 to 27.06% in 2013, because our net profit grew at a faster rate than our average equity during this period. The growth in our net profit from 2012 to 2013 was largely the result of the growth in our net interest income, primarily reflecting (i) an increase in the volume of loans to customers, (ii) an increase in the volume of deposits with banks and other financial institutions, and (iii) an increase in the volume of and average yield on financial investments.

Our return on average total assets decreased from 1.46% in 2013 to 1.25% for the first six months of 2014, because our net profit grew at a lower rate than our average total assets during this period. Our total assets grew at a rapid pace during the six months ended June 30, 2014, primarily due to the capital increase and issuance of Tier 2 capital instruments during the period, leading to an increase in our assets. Our return on average equity decreased from 27.06% in 2013 to 21.29% for the first six months of 2014, because our net profit grew at a lower rate than our average equity during this period. Our net profit for the six months ended June 30, 2014 grew at a slower pace mainly because of (i) our increase in allowance to total loans, with the impairment losses on our customer loans increasing from RMB139 million for the six months ended June 30, 2013 to RMB386 million for the six months ended June 30, 2014 as a result of uncertainty in macroeconomic conditions; (ii) an increase in our operating expenses by 39.0% from RMB1,144 million for the six months ended June 30, 2013 to RMB1,590 million for the six months ended June 30, 2014; and (iii) our losses from cessation of significant influence over investment in an associate, Benxi City Commercial Bank, of RMB127 million, see "– Result of Operations – Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013 – Net Trading (Losses)/Gains, Net (Losses)/Gains Arising from Financial Investments and Other Operating Income – Net (Losses)/Gains Arising from Financial Investments" for details.

For the changes in our net interest spread and net interest margin, see "– Results of Operations – Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013 – Net Interest Income Net Interest Spread and Net Interest Margin" and "– Result of Operations – Comparison of 2013, 2012 and 2011 – Net Interest Income Net Interest Spread and Net Interest Margin".

During the Track Record Period, we had taken various measures to strengthen our capital, including the issuance of subordinated debts of RMB900 million in November 2011 and the issuance of 300 million Shares in December 2011, as a result of which, as of December 31, 2011, our core capital adequacy ratio and capital adequacy ratio calculated based on the Capital Adequacy Measures increased to 8.92% and 12.02%, respectively; the issuance of 700 million Shares in 2013 and April 2014 and the issuance of Tier 2 capital bonds of RMB2,200 million in May 2014, as a result of which, as of June 30, 2014, our core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio calculated based on the Capital Administrative Measures was 9.77%, 9.77% and 11.61%, respectively, which complied with the CBRC's requirements for capital adequacy ratios during the transition period. For more details of capital adequacy ratios, see "– Financial Position – Capital Resources – Capital Adequacy".

RESULTS OF OPERATIONS

Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

Net Interest Income

Net interest income constitutes the largest component of our operating income, accounting for 90.4% and 88.2% of our operating income for the six months ended June 30, 2013 and 2014, respectively. The following table sets forth our interest income, interest expense and net interest income for the periods indicated:

	Six months ended June 30,	
	2013 (unaudited)	2014
	(in millions of RMB)	
Interest income	8,311	11,876
Interest expense	(4,678)	(7,256)
Net interest income	3,633	4,620

Our net interest income increased by 27.2% from RMB3,633 million for the six months ended June 30, 2013 to RMB4,620 million for the six months ended June 30, 2014, primarily reflecting (i) an increase in the volume and interest rates of deposits with banks and other financial institutions, (ii) an increase in the volume of loans to customers, and (iii) an increase in the volume of financial investments.

Net interest income represents interest income less interest expense. Our net interest income is mainly affected by the difference between the average yield on our interest-earning assets and the average cost of our interest-bearing liabilities, as well as the average balances of our interest-earning assets and interest-bearing liabilities. As substantially all of our interest-earning assets and interest-bearing liabilities are derived from our operations in the PRC, the average yield on our interest-earning assets and the average cost of our interest-bearing liabilities are affected by the PBOC benchmark interest rates and the PBOC's policies and regulations on interest rates.

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 interest-earning assets or related average costs of interest-bearing liabilities for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities for the six months ended June 30, 2013 and 2014 are the average balances derived from our management accounts and have not been audited.

	Six months ended June 30,					
	2013			2014		
	Average balance	Interest income/ expense	Average yield/ cost[7]	Average balance	Interest income/ expense	Average yield/ cost[7]
	(in millions of RMB, except percentages)					
Interest-earning assets						
Loans and advances to customers	120,797	4,473	7.41%	142,060	5,671	7.98%
Financial investments[1]	71,309	1,867	5.24%	85,713	2,355	5.50%
Deposits with central bank[2]	47,951	358	1.49%	55,801	418	1.50%
Deposits with banks and other financial institutions[3]	64,100	1,452	4.53%	103,694	3,065	5.91%
Financial assets held under resale agreements	6,885	155	4.50%	12,299	362	5.89%
Placements with banks and other financial institutions	199	5	5.03%	254	5	3.94%
Financial assets at fair value through profit or loss	67	1	2.99%	–	–	–
Total interest-earning assets	311,308	8,311	5.34%	399,821	11,876	5.94%
Non-interest-earning assets[4]	14,447			26,920		
Total assets	325,755			426,741		
Interest-bearing liabilities						
Deposits from customers	223,987	3,328	2.97%	268,980	4,406	3.28%
Deposits from banks and other financial institutions	43,571	814	3.74%	71,369	2,073	5.81%
Financial assets sold under repurchase agreements	23,807	436	3.66%	30,649	692	4.52%
Placements from banks and other financial institutions	2,747	39	2.84%	2,805	43	3.07%
Debt securities issued	2,100	61	5.81%	1,289	42	6.52%
Total interest-bearing liabilities	296,212	4,678	3.16%	375,092	7,256	3.87%
Non-interest-bearing liabilities[5]	4,087			7,646		
Total liabilities	300,299			382,738		
Net interest income		3,633			4,620	
Net interest spread[6]			2.18%			2.07%
Net interest margin[7]			2.33%			2.31%

Notes:

(1) Include available-for-sale financial assets, held-to-maturity investments and financial investments classified as loans and receivables.

(2) Mainly include statutory deposit reserves and surplus deposit reserves.

(3) Mainly include our deposits with other banks and other financial institutions.

(4) Mainly include cash, interest receivable, investments in associates, fixed assets, intangible assets, deferred income tax assets, other receivables and other assets.

(5) Mainly include accrued staff salaries, taxes payable, interest payable and other liabilities.

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

(7) Calculated on an annual basis.

The following table sets forth the changes in our interest income and interest expense due to changes in volume and rates for the periods indicated. Volume and rate variances have been measured based on movements in average balances over these periods and changes in interest rates have been measured based on daily average interest-earning assets and interest-bearing liabilities. Variances caused by changes in both volume and interest rate have been allocated to interest rate.

	Six months ended June 30, 2014 vs. 2013		
	Increase/(decrease) due to		**Net increase/ (decrease)[(3)]**
	Volume[(1)]	**Rate[(2)]**	
	(in millions of RMB)		
Interest-earning assets			
Loans and advances to customers	787	411	1,198
Financial investments	377	111	488
Deposits with central bank	59	1	60
Deposits with banks and other financial institutions	897	716	1,613
Financial assets held under resale agreements	122	85	207
Placements with banks and other financial institutions	1	(1)	0
Financial assets at fair value through profit or loss	(1)	0	(1)
Changes in interest income	2,242	1,323	3,565

	Six months ended June 30, 2014 vs. 2013		
	Increase/(decrease) due to		Net increase/ (decrease)[3]
	Volume[1]	Rate[2]	
	(in millions of RMB)		
Interest-bearing liabilities			
Deposits from customers	669	409	1,078
Deposits from banks and other financial institutions	518	741	1,259
Financial assets sold under repurchase agreements	125	131	256
Placements from banks and other financial institutions	1	3	4
Debt securities issued	(24)	5	(19)
Changes in interest expense	1,289	1,289	2,578
Changes in net interest income	953	34	987

Notes:

(1) Represents the average balance for the period minus the average balance for the previous period, multiplied by the average yield or cost for the previous period and divided by two.

(2) Represents the average yield or cost for the period minus the average yield or cost for the previous period, multiplied by the average balance for the period and divided by two.

(3) Represents interest income or expense for the period minus interest income or expense for the previous period.

Interest Income

The following table sets forth the breakdown of our interest income for the periods indicated:

	Six months ended June 30,			
	2013 (unaudited)		2014	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Loans and advances to customers				
Corporate loans (including discounted bills)	4,380	52.7%	5,550	46.8%
Personal loans	93	1.1	121	1.0
Subtotal	4,473	53.8	5,671	47.8
Financial investments	1,867	22.4	2,355	19.8
Deposits with central bank	358	4.3	418	3.5
Deposits with banks and other financial institutions	1,452	17.5	3,065	25.8
Financial assets held under resale agreements	155	1.9	362	3.0
Placements with banks and other financial institutions	5	0.1	5	0.1
Financial assets at fair value through profit or loss	1	0.0	–	–
Total	8,311	100.0%	11,876	100.0%

Our interest income increased by 42.9% from RMB8,311 million for the six months ended June 30, 2013 to RMB11,876 million for the six months ended June 30, 2014, primarily due to (i) an increase in the volume and interest rates of deposits with banks and other financial institutions, (ii) an increase in the volume of loans to customers, and (iii) an increase in the volume of financial investments.

Interest Income from Loans and Advances to Customers

Interest income from loans and advances to customers is the largest component of our interest income, accounting for 53.8% and 47.8% of our interest income for the six months ended June 30, 2013 and 2014, respectively. Interest income from loans to customers consists of interest income from corporate loans and personal loans.

The largest component of our interest income from loans to customers is interest income from corporate loans, which accounted for 97.9% of our total interest income from loans to customers for the six months ended June 30, 2013 and 2014, respectively. The following table sets forth the average balances, interest income and average yields of our loans to customers:

	Six months ended June 30,					
	2013			2014		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
	(in millions of RMB, except percentages)					
Corporate loans (including discounted bills)	117,665	4,380	7.44%	137,930	5,550	8.05%
Personal loans	3,132	93	5.94%	4,130	121	5.86%
Total	120,797	4,473	7.41%	142,060	5,671	7.98%

Interest income from loans to customers increased by 26.8% from RMB4,473 million for the six months ended June 30, 2013 to RMB5,671 million for the six months ended June 30, 2014, mainly due to an increase in the average balance of loans to customers by 17.6% from RMB120,797 million for the six months ended June 30, 2013 to RMB142,060 million for the six months ended June 30, 2014 resulting from the growth of our corporate loan business.

Interest income from corporate loans (including discounted bills) increased by 26.7% from RMB4,380 million for the six months ended June 30, 2013 to RMB5,550 million for the six months ended June 30, 2014, mainly due to the increase in the average balance of our corporate loans by 17.2% from RMB117,665 million for the six months ended June 30, 2013 to RMB137,930 million for the six months ended June 30, 2014 as a result of the growth of our corporate loan business, and the increase in the average yield of our corporate loans from 7.44% for the six months ended June 30, 2013 to 8.05% for the six months ended June 30, 2014 as a result of our adjustments to the lending rates according to the conditions of our credit portfolios.

Interest income from personal loans increased by 30.1% from RMB93 million for the six months ended June 30, 2013 to RMB121 million for the six months ended June 30, 2014, mainly due to the increase in the average balance of our personal loans by 31.9% from RMB3,132 million for the six months ended June 30, 2013 to RMB4,130 million for the six months ended June 30, 2014 as a result of the growth of our personal loan business.

Interest Income from Financial Investments

For the six months ended June 30, 2013 and 2014, interest income from financial investments accounted for 22.4% and 19.8%, respectively, of our interest income.

Interest income from financial investments increased by 26.1% from RMB1,867 million for the six months ended June 30, 2013 to RMB2,355 million for the same period in 2014, mainly due to an increase in the average balance of our financial investments by 20.2% from RMB71,309 million for the six months ended June 30, 2013 to RMB85,713 million for the same period in 2014 as a result of the increase in our directional asset management plans and investments in bonds, as well as the increase in average yield on our financial investments from 5.24% for the six months ended June 30, 2013 to 5.50% for the same period in 2014, which was driven by the increase in average yield on the trust beneficiary rights.

Interest Income from Deposits with Central Bank

Our interest-earning balances with central bank primarily include statutory deposit reserves and surplus deposit reserves with the PBOC. Statutory deposit reserves represent the minimum level of cash deposits, calculated as a percentage of the balance of our customer deposits, that we are required to maintain at the PBOC. Surplus deposit reserves are deposits with the PBOC in excess of statutory deposit reserves which we maintain for capital settlement. For the six months ended June 30, 2013 and 2014, interest income from deposits with central bank accounted for 4.3% and 3.5%, respectively, of our interest income.

Interest income from deposits with central bank increased by 16.8% from RMB358 million for the six months ended June 30, 2013 to RMB418 million for the same period in 2014, primarily due to the growth in our deposits, which in turn resulted in an increase in the amount of our statutory deposit reserves with central bank.

Interest Income from Deposits with Banks and Other Financial Institutions

Interest income from deposits with banks and other financial institutions primarily refers to that from deposits with banks and other financial institutions. For the six months ended June 30, 2013 and 2014, interest income from deposits with banks and other financial institutions accounted for 17.5% and 25.8%, respectively, of our interest income.

Interest income from deposits with banks and other financial institutions significantly increased from RMB1,452 million for the six months ended June 30, 2013 to RMB3,065 million for the same period in 2014, mainly because (i) as a result of an increase in the market interest rate, we increased our deposits with banks and other financial institutions, thereby increasing the average balance by 61.8% from RMB64,100 million for the six months ended June 30, 2013 to RMB103,694 million for the same period in 2014; and (ii) the interest rate on deposits with banks and other financial institutions increased in early 2014 following the rise in market interest rate, thereby increasing the average yield thereon from 4.53% for the six months ended June 30, 2013 to 5.91% for the same period in 2014.

Interest Income from Financial Assets Held under Resale Agreements

For the six months ended June 30, 2013 and 2014, interest income from financial assets held under resale agreements accounted for 1.9% and 3.0%, respectively, of our interest income.

Interest income from financial assets held under resale agreements increased significantly from RMB155 million for the six months ended June 30, 2013 to RMB362 million for the same period in 2014, mainly because (i) the yield on financial assets held under resale agreements increased during the fourth quarter of 2013 following the rise in market interest rate, as such, we increased our investment in financial assets held under resale agreements, thereby increasing the average balance by 78.6% from RMB6,885 million for the six months ended June 30, 2013 to RMB12,299 million for the same period in 2014; and (ii) we had a larger proportion of medium- and long-term financial assets held under resale agreements with higher yields, thereby increasing the average yield on the financial assets from 4.50% for the six months ended June 30, 2013 to 5.89% for the same period in 2014.

Interest Expense

The following table sets forth the principal components of our interest expense for the periods indicated:

	Six months ended June 30,			
	2013 (unaudited)		2014	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Deposits from customers	3,328	71.2%	4,406	60.7%
Deposits from banks and other financial institutions	814	17.4	2,073	28.6
Financial assets sold under repurchase agreements	436	9.3	692	9.5
Placements from banks and other financial institutions	39	0.8	43	0.6
Interest expense on bond issuance	61	1.3	42	0.6
Total	4,678	100.0%	7,256	100.0%

Interest expense increased by 55.1% from RMB4,678 million for the six months ended June 30, 2013 to RMB7,256 million for the same period in 2014, primarily due to the increase in both average balance and interest rate of deposits from banks and other financial institutions and deposits from customers.

Interest Expense on Customer Deposits

Interest expense on customer deposits is the largest component of our interest expense, accounting for 71.2% and 60.7% of our interest expense for the six months ended June 30, 2013 and 2014, respectively. The following table sets forth the average balance, interest expense and average cost for our corporate deposits and personal deposits by product type for the periods indicated:

	Six months ended June 30,					
	2013 (unaudited)			2014		
	Average balance	**Interest expense**	**Average cost**	**Average balance**	**Interest expense**	**Average cost**
	(in millions of RMB, except percentages)					
Corporate deposits[1]						
Time	88,195	1,814	4.11%	122,464	2,789	4.55%
Demand	69,881	471	1.35%	67,779	284	0.84%
Subtotal	158,076	2,285	2.89%	190,243	3,073	3.23%
Personal deposits[1]						
Time	55,565	1,022	3.68%	68,093	1,312	3.85%
Demand	10,346	21	0.41%	10,644	21	0.39%
Subtotal	65,911	1,043	3.16%	78,737	1,333	3.39%
Total	223,987	3,328	2.97%	268,980	4,406	3.28%

Note:

(1) Include pledged deposits held as collateral.

Interest expense on customer deposits increased by 32.4% from RMB3,328 million for the six months ended June 30, 2013 to RMB4,406 million for the same period in 2014, primarily due to (i) an increase in the average balance of customer deposits by 20.1% from RMB223,987 million for the six months ended June 30, 2013 to RMB268,980 million for the same period in 2014 following the establishment of a number of branches since June 2013 which further promoted the growth of our deposit business; and (ii) the increase in the proportion of time deposits with a higher interest rate, resulting in an increase in the average interest rate of customer deposits from 2.97% for the six months ended June 30, 2013 to 3.28% for the same period in 2014.

Interest Expense on Deposits from Banks and Other Financial Institutions

For the six months ended June 30, 2013 and 2014, our interest expense on deposits from banks and other financial institutions accounted for 17.4% and 28.6%, respectively, of our total interest expense.

Interest expense on deposits from banks and other financial institutions increased significantly from RMB814 million for the six months ended June 30, 2013 to RMB2,073 million for the same period in 2014, primarily due to (i) an increase in the average balance of deposits from banks and other financial institutions by 63.8% from RMB43,571 million for the six months ended June 30, 2013 to RMB71,369 million for the same period in 2014 as a result of our expanded cooperation with other banks and rational arrangement of liquidity; and (ii) an increase in the interest rate on deposits from banks and other financial institutions in early 2014 resulting in an increase in the average interest rate from 3.74% for the six months ended June 30, 2013 to 5.81% for the same period in 2014.

Interest Expense on Financial Assets Sold under Repurchase Agreements

For the six months ended June 30, 2013 and 2014, our interest expense on financial assets sold under repurchase agreements accounted for 9.3% and 9.5%, respectively, of our total interest expense.

Interest expense on financial assets sold under repurchase agreements increased by 58.7% from RMB436 million for the six months ended June 30, 2013 to RMB692 million for the same period in 2014, primarily due to (i) an increase in the interest rate of financial assets sold under repurchase agreements resulting from the rise of the inter-bank market interest rate from 3.66% for the six months ended June 30, 2013 to 4.52% for the same period in 2014; and (ii) an increase in the average balance of financial assets sold under repurchase agreements by 28.7% from RMB23,807 million for the six months ended June 30, 2013 to RMB30,649 million for the same period in 2014 as a result of our liquidity management exercise in accordance with our general financial position and market interest rates.

Interest Expense on Debt Securities Issued

We issued ten-year subordinated bonds in each of 2008 and 2011 with an aggregate principal amount of RMB1,200 million and RMB900 million, respectively. The interest rate on the subordinated bonds issued in 2008 is 5.50% per annum for the first five years and, if not redeemed at the end of the fifth year, will be increased by 2.50% per annum in the following five years; and the interest rate on the subordinated bonds issued in 2011 is 6.50% per annum. In 2013, we redeemed in full the subordinated bonds issued in 2008 with a principal amount of RMB1,200 million. In 2014, we issued ten-year Tier 2 capital bonds, with an aggregate principal amount of RMB2.2 billion and an annual interest rate of 6.18%. See "– Financial Position – Capital Resources – Debt Securities Issued" for details. For the six months ended June 30, 2013 and 2014, our interest expense on debt securities issued was RMB61 million and RMB42 million, respectively, accounting for 1.3% and 0.6%, respectively, of our total interest expense.

Interest Expense on Placements from Banks and Other Financial Institutions

For the six months ended June 30, 2013 and 2014, our interest expense on placements from banks and other financial institutions accounted for 0.8% and 0.6%, respectively, of our total interest expense.

Interest expense on placements from banks and other financial institutions increased by 10.3% from RMB39 million for the six months ended June 30, 2013 to RMB43 million for the same period in 2014, mainly due to (i) the increase in average interest rate of placements from banks and other financial institutions from 2.84% for the six months ended June 30, 2013 to 3.07% for the same period in 2014 as a result of the rise of interest rates on the foreign currency market since the end of 2013 and a higher proportion of placements from banks and other financial institutions with a longer term for the first six months of 2014; and (ii) an increase in the average balance by 2.1% from RMB2,747 million for the six months ended June 30, 2013 to RMB2,805 million for the same period in 2014 as we took into account the capital availability of the inter-bank market and increased the volume of placements in foreign currencies from banks and other financial institutions.

Net Interest Spread and Net Interest Margin

Net interest spread is the difference between the average yield on the average balance of our total interest-earning assets and the average cost of the average balance of our total interest-bearing liabilities. Net interest margin is the ratio of net interest income to the average balance of total interest-earning assets.

Our annualized net interest spread decreased from 2.18% for the six months ended June 30, 2013 to 2.07% for the same period in 2014, and our annualized net interest margin decreased from 2.33% for the six months ended June 30, 2013 to 2.31% for the same period in 2014, primarily because the average cost of liabilities grew at a higher rate than the average yield on assets as (i) the proportion of loans to customers (which have a higher yield than other interest-earning assets) to the total interest-earning assets decreased; (ii) the proportion of time deposits of higher average cost to total deposits increased and the interest rate on deposits from banks and other financial institutions in early 2014 rose, which resulted in an increase in the average cost of interest-bearing liabilities in early 2014; and (iii) the proportion of deposits from banks and other financial institutions to total interest-bearing liabilities increased.

Net Fee and Commission Income

Net fee and commission income represented 7.0% and 13.5% of our total operating income for the six months ended June 30, 2013 and 2014, respectively. The following table sets forth the principal components of our net fee and commission income for the periods indicated:

	Six months ended June 30,	
	2013	**2014**
	(unaudited)	
	(in millions of RMB)	
Fee and commission income		
Agency and custody service fees	263	677
Settlement and clearing fees	28	50
Bank card service fees	15	19
Subtotal	306	746
Fee and commission expenses		
Bank card service expenses	(18)	(21)
Agency and custody service expenses	(4)	(14)
Settlement and clearing expenses	(3)	(5)
Subtotal	(25)	(40)
Net fee and commission income	281	706

Our net fee and commission income increased significantly from RMB281 million for the six months ended June 30, 2013 to RMB706 million for the same period in 2014, primarily due to the significant increase in the income from the agency and custody service in order to increase the income from the intermediary business as a percentage of our operating income.

Fee and Commission Income

The principal sources of our fee and commission income are (i) agency and custody service, (ii) settlement and clearing and (iii) bank card service. Fee and commission income increased significantly from RMB306 million for the six months ended June 30, 2013 to RMB746 million for the same period in 2014, primarily due to the significant increase in the income from the agency and custody service in order to increase the income from the intermediary business as a percentage of our operating income.

Agency and custody service fees mainly includes the income from custody services for trust funds, the fee on entrusted loans, the fee from the fee collection agency business, the fee from the trust agency business and the fee from other agency businesses. Our agency and custody service fees increased significantly from RMB263 million for the six months ended June 30, 2013 to RMB677 million for the same period in 2014, primarily due to an increase in the income from custody services for trust funds primarily as a result of the increase in the scale of the trust funds to which we provided custody services due to the expansion of that business resulting from our increased marketing efforts.

Settlement and clearing fees mainly include the domestic settlement fee, the international settlement fee and the fee from the acceptance business. Settlement and clearing fees increased by 78.6% from RMB28 million for the six months ended June 30, 2013 to RMB50 million for the same period in 2014, primarily due to the expansion of the acceptance business and the international settlement business resulting from increased customer demand.

Bank card service fees primarily include debit card fees (including transaction commissions from merchants using debit cards, inter-bank transaction fees and other fees on debit cards) and credit card fees (including transaction commissions from merchants using credit cards, installment payment service charges, late payment fees, overdraft charges, annual fees and other service charges on credit cards). Bank card service fees increased by 26.7% from RMB15 million for the six months ended June 30, 2013 to RMB19 million for the same period in 2014, primarily due to an increase in the number of our bank cards in issue and the volume of transactions of our bank cards.

Fee and Commission Expense

Fee and commission expenses primarily include fees paid to third parties for our provision of intermediary services that can be directly classified as expenses related to the provision of such services. Our fee and commission expenses increased by 60.0% from RMB25 million for the six months ended June 30, 2013 to RMB40 million for the same period in 2014. Fee and commission expenses increased, primarily due to an increase in the expenses of the bank card service and agency and custody service.

Bank card service expenses constitute the largest component of our fee and commission expenses, accounting for 72.0% and 52.5% of our fee and commission expenses for the six months ended June 30, 2013 and 2014, respectively. Our bank card service expenses increased by 16.7% from RMB18 million for the six months ended June 30, 2013 to RMB21 million for the same period in 2014, primarily due to an increase in the number of bank cards issued by us and the volume of transactions.

Net Trading (Losses)/Gains, Net (Losses)/Gains Arising from Financial Investments and Other Operating Income

The following table sets forth our net trading (losses)/gains, net (losses)/gains arising from financial investments and other operating income for the periods indicated:

	Six months ended June 30,	
	2013 (unaudited)	**2014**
	(in millions of RMB)	
Net trading (losses)/gains	1	6
Net (losses)/gains arising from financial investments	93	(112)
Other operating income	11	19
Total	105	(87)

Net trading (losses)/gains primarily includes fair value gain on trading bonds, net gain on held-for-trading financial assets and foreign exchange gain. Net (losses)/gains arising from financial investments primarily include net gain on available-for-sale financial assets. Other operating income primarily includes the sale of foreclosed assets, the sale of land use rights and buildings, government grants and dividend income.

Net Trading (Losses)/Gain

We recorded a significant increase in net trading gain from RMB1 million for the six months ended June 30, 2013 to RMB6 million for the same period in 2014, primarily due to an increase in foreign exchange gain as a result of the appreciation in the value of our assets denominated in foreign currencies due to the decline in the exchange rate of Renminbi during that period.

Net (Losses)/Gains Arising from Financial Investments

The following table sets forth the principal components of our net (losses)/gains arising from financial investments for the periods indicated:

	Six months ended June 30,	
	2013	**2014**
	(in millions of RMB)	
Net (losses)/gains on disposal of available-for-sale financial assets	93	15
Losses from diluted investment in an associate	–	(127)
Total	93	(112)

We recorded a net gain arising from financial investments of RMB93 million for the six months ended June 30, 2013, mainly because based on the downturn of bond market yields in the first half of 2013, we partly disposed of our available-for-sale financial assets to realize gains and to enhance investment returns. We recorded a net loss of RMB112 million for the six months ended June 30, 2014, mainly due to losses from cessation of significant influence over investment in an associate, Benxi City Commercial Bank, of RMB127 million. In January 2014, Benxi City Commercial Bank issued additional registered capital to other investors and thus our equity interest in Benxi City Commercial Bank was diluted from 39.02% to 11.88%. Please see Note 22 to Appendix I – "Accountants' Reports".

Other Operating Income

Our other operating income increased by 72.7% from RMB11 million for the six months ended June 30, 2013 to RMB19 million for the same period in 2014, mainly due to the increase in the premium from disposal of foreclosed assets.

Operating Expense

The following table sets forth the principal components of our operating expenses for the periods indicated:

	Six months ended June 30,	
	2013 (unaudited)	**2014**
	(in millions of RMB)	
Staff costs	429	634
Business taxes and surcharges	345	481
Office expenses, rent and property management expenses	182	215
Depreciation and amortization	111	142
Other operating expenses	77	118
Total	1,144	1,590

Our operating expenses increased by 39.0% from RMB1,144 million for the six months ended June 30, 2013 to RMB1,590 million for the same period in 2014, primarily as a result of the increase in staff costs and business tax and surcharges. For the six months ended June 30, 2013 and 2014, the cost-to-income ratio was 19.88% and 21.17%, respectively. Cost-to-income ratio, defined as total operating expenses (excluding business tax and surcharges) divided by the sum of (i) net interest income, (ii) net fee and commission income and (iii) other operating income, increased for the six months ended June 30, 2014 compared to that for the six months ended June 30, 2013 primarily because the increase in staff costs had resulted in a greater growth rate of operating expenses compared to that of operating income over the same period.

Staff Costs

The following table sets forth the principal components of our staff costs for the periods indicated:

	Six months ended June 30,	
	2013 (unaudited)	**2014**
	(in millions of RMB)	
Salaries, bonuses and allowances	317	460
Basic and complementary pension insurance	45	69
Other four social insurance schemes	19	45
Housing provident fund	20	25
Complementary retirement benefits	3	9
Other social security and welfare expenses	25	26
Total	429	634

Staff costs increased by 47.8% from RMB429 million for the six months ended June 30, 2013 to RMB634 million for the same period in 2014, primarily due to (i) an increase in the number of our staff; and (ii) an increase in salaries as we raised our salary level of Bank staff in early 2014.

Business Taxes and Surcharges

Business tax is levied at 5% of our taxable income (primarily including the interest income from loans to customers and our fee and commission income). We are also subject to certain additional taxes levied by local governments which in the aggregate accounted for 0.60% to 0.85% of the amount of business tax paid, depending on locality. The business taxes and surcharges increased by 39.4% from RMB345 million for the six months ended June 30, 2013 to RMB481 million for the same period in 2014 was in line with the increase in interest income and fee and commission income.

Office Expenses, Rent and Property Management Expenses

Office expenses, rent and property management expenses mainly include office supplies, property rents, maintenance fees for electronic devices and security fees, conference fees and postal, telecom and printing fees. Office expenses, rent and property management expenses for the six months ended June 30, 2013 and for the same period in 2014 were RMB182 million and RMB215 million, respectively. The increase is in line with the increase in business scale of our Bank.

Depreciation and Amortization

Our depreciation and amortization mainly include depreciation of fixed assets and amortization of intangible assets. Our depreciation and amortization increased by 27.9% from RMB111 million for the six months ended June 30, 2013 to RMB142 million for the same period in 2014. The increase in depreciation and amortization was primarily due to the increase in the depreciation of fixed assets resulting from our expanded properties and equipment and the increase in our long-term prepaid expenses, in particular the renovation costs of leased properties and the expenses for opening operation outlets.

Other Operating Expenses

Our other operating expenses primarily include expenses related to our business operations such as marketing, accommodation, car rental and other business and administration expenses. Our other operating expenses increased by 53.2% from RMB77 million for the six months ended June 30, 2013 to RMB118 million for the same period in 2014, primarily due to the increase in accommodation, marketing, car rental and other business and administration expenses as a result of the expansion of our business.

Impairment Losses on Assets

The following table sets forth the principal components of our impairment losses on assets for the periods indicated:

	Six months ended June 30,	
	2013 (unaudited)	**2014**
	(in millions of RMB)	
Loans and advances to customers	139	386
Other assets[1]	4	(17)
Total	143	369

Note:

(1) Primarily include provision for/(reversal of) impairment losses on other assets.

Impairment losses on loans to customers accounted for a substantial portion of our impairment losses on loans and advances to customers. Our impairment losses on loans to customers increased significantly from RMB139 million for the six months ended June 30, 2013 to RMB386 million for the same period in 2014, primarily due to our increase in allowance to total loans as a result of uncertainty in macroeconomic conditions.

Income Tax

The following table sets forth the reconciliation between the income tax expenses calculated at the statutory income tax rate applicable to our profit before tax and our actual income tax expenses for the periods indicated:

	Six months ended June 30,	
	2013 (unaudited)	**2014**
	(in millions of RMB)	
Profit before tax	2,754	3,282
Income tax calculated at statutory tax rate of 25.0%	688	821
Tax effect of non-taxable income[(1)]	(73)	(83)
Tax effect of non-deductible expenses[(2)]	18	39
Adjustment to income tax for prior years	(41)	–
Income tax expense	592	777

Notes:

(1) Primarily includes interest income from PRC government bonds and dividends from PRC domestic enterprises, which are exempted from income tax pursuant to PRC tax regulations.

(2) Primarily include the portion of expenses in excess of the statutory deductible limit under PRC tax law.

For the six months ended June 30, 2013 and 2014, our income tax expense was RMB592 million and RMB777 million, respectively, representing an effective income tax rate, defined as income tax expense divided by profit before tax, of 21.5% and 23.7%, respectively. The increase in tax expense for the six months ended June 30, 2014 was primarily due to an increase in our profit before tax.

The following table sets forth the components of our income tax expenses for the periods indicated:

	Six months ended June 30,	
	2013 (unaudited)	**2014**
	(in millions of RMB)	
Current tax	616	827
Deferred tax	(24)	(50)
Income tax expense	592	777

Net Profit

As a result of the foregoing, our net profit increased by 15.9% from RMB2,162 million for the six months ended June 30, 2013 to RMB2,505 million for the same period in 2014.

Comparison of 2013, 2012 and 2011

Net Interest Income

Net interest income constitutes a substantial part of our operating income, accounting for 98.7%, 98.2% and 88.1% of our operating income in 2011, 2012 and 2013, respectively. The following table sets forth our interest income, interest expense and net interest income for the periods indicated:

	Year ended December 31,		
	2011	**2012**	**2013**
	(in millions of RMB)		
Interest income	10,177	13,835	18,038
Interest expense	(4,832)	(7,051)	(10,194)
Net interest income	5,345	6,784	7,844

Our net interest income increased by 26.9% from RMB5,345 million in 2011 to RMB6,784 million in 2012, primarily reflecting (i) an increase in the volume and interest rates of loans to customers, (ii) an increase in the volume of deposits with banks and other financial institutions, and (iii) an increase in the volume and interest rates of financial investments. Our net interest income increased by 15.6% from RMB6,784 million in 2012 to RMB7,844 million in 2013, primarily reflecting (i) an increase in the volume of deposits with banks and other financial institutions, (ii) an increase in the volume and interest rates of financial investments, and (iii) an increase in the volume of loans to customers.

The following table sets forth the average balance of our interest-earning assets and interest-bearing liabilities, the related interest income or expense and the related average yields on interest-earning assets or average cost of interest-bearing liabilities for the periods indicated.

	Year ended December 31,								
	2011			2012			2013		
	Average balance	Interest income/ expense	Average yield/ cost	Average balance	Interest income/ expense	Average yield/ cost	Average balance	Interest income/ expense	Average yield/ cost
	(in millions of RMB, except percentages)								
Interest-earning assets									
Loans and advances to customers	95,958	6,772	7.06%	111,855	8,389	7.50%	131,038	9,474	7.23%
Financial investments(1)	45,084	1,635	3.63%	61,050	2,870	4.70%	74,964	4,184	5.58%
Deposits with central bank(2)	28,693	441	1.54%	39,231	591	1.50%	49,332	745	1.51%
Deposits with banks and other financial institutions(3)	7,476	403	5.39%	36,165	1,773	4.90%	64,851	3,270	5.04%
Financial assets held under resale agreements	18,026	806	4.47%	4,378	196	4.48%	7,526	354	4.70%
Placements with banks and other financial institutions	227	12	5.29%	69	3	4.35%	215	10	4.65%
Financial assets at fair value through profit or loss	2,689	108	4.02%	334	13	3.89%	33	1	3.03%
Total interest-earning assets	198,153	10,177	5.14%	253,082	13,835	5.47%	327,959	18,038	5.50%
Non-interest-earning assets(4)	26,094			20,216			21,203		
Total assets	224,247			273,298			349,162		
Interest-bearing liabilities									
Deposits from customers	153,092	3,156	2.06%	175,747	4,492	2.56%	231,896	6,704	2.89%
Deposits from banks and other financial institutions	8,478	441	5.20%	31,075	1,279	4.12%	47,821	2,394	5.01%
Financial assets sold under repurchase agreements	24,590	1,097	4.46%	27,952	1,100	3.94%	22,217	924	4.16%
Debt securities issued	1,343	75	5.58%	2,100	125	5.95%	1,992	119	5.97%
Placements from banks and other financial institutions	1,770	63	3.56%	1,753	55	3.14%	2,100	53	2.52%
Total interest-bearing liabilities	189,273	4,832	2.55%	238,627	7,051	2.95%	306,026	10,194	3.33%
Non-interest-bearing liabilities(5)	2,488			3,115			5,175		
Total liabilities	191,761			241,742			311,201		
Net interest income		5,345			6,784			7,844	
Net interest spread(6)			2.59%			2.52%			2.17%
Net interest margin			2.70%			2.68%			2.39%

Notes:

(1) Include available-for-sale financial assets, held-to-maturity investments and financial investments classified as loans and receivables.

(2) Mainly include statutory deposit reserves and surplus deposit reserves.

(3) Mainly include our deposits with other banks and other financial institutions.

(4) Mainly include cash, interest receivable, investments in associates, fixed assets, intangible assets, deferred income tax assets, other receivables and other assets.

(5) Mainly include accrued staff salaries, taxes payable, interest payable and other liabilities.

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

The following table sets forth the changes in our interest income and interest expense due to changes in volume and rates for the periods indicated. Volume variances have been measured based on movements in average balances over these periods and changes in interest rates have been measured based on daily average interest-earning assets and interest-bearing liabilities. Variances caused by changes in both volume and interest rate have been allocated to interest rate.

	Year ended December 31,					
	2012 vs. 2011			2013 vs. 2012		
	Increase/(decrease) due to		Net increase/ (decrease)(3)	Increase/(decrease) due to		Net increase/ (decrease)(3)
	Volume(1)	Rate(2)		Volume(1)	Rate(2)	
	(in millions of RMB)					
Interest-earning assets						
Loans and advances to customers	1,122	495	1,617	1,439	(354)	1,085
Financial investments	579	656	1,235	654	660	1,314
Deposits with central bank	162	(12)	150	152	2	154
Deposits with banks and other financial institutions	1,547	(177)	1,370	1,406	91	1,497
Financial assets held under resale agreements	(610)	0	(610)	141	17	158
Placements with banks and other financial institutions	(8)	(1)	(9)	6	1	7
Financial assets at fair value through profit or loss	(95)	0	(95)	(12)	0	(12)
Changes in interest income	2,697	961	3,658	3,786	417	4,203

	Year ended December 31,					
	2012 vs. 2011			2013 vs. 2012		
	Increase/(decrease) due to		Net increase/ (decrease)[(3)]	Increase/(decrease) due to		Net increase/ (decrease)[(3)]
	Volume[(1)]	Rate[(2)]		Volume[(1)]	Rate[(2)]	
	(in millions of RMB)					
Interest-bearing liabilities						
Deposits from customers	468	868	1,336	1,435	777	2,212
Deposits from banks and other financial institutions	1,175	(337)	838	689	426	1,115
Financial assets sold under repurchase agreements	150	(147)	3	(226)	50	(176)
Debt securities issued	42	8	50	(6)	0	(6)
Placements from banks and other financial institutions	(1)	(7)	(8)	11	(13)	(2)
Changes in interest expense	1,834	385	2,219	1,903	1,240	3,143
Changes in net interest income	863	576	1,439	1,883	(823)	1,060

Notes:

(1) Represents the average balance for the year minus the average balance for the previous year, multiplied by the average yield or average cost for the previous year.

(2) Represents the average yield or average cost for the year minus the average yield or average cost for the previous year, multiplied by the average balance for the year.

(3) Represents interest income or expense for the year minus interest income or expense for the previous year.

Interest Income

The following table sets forth the principal components of our interest income for the periods indicated:

	Year ended December 31,					
	2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Loans and advances to customers						
Corporate loans (including discounted bills)	6,655	65.4%	8,210	59.3%	9,277	51.4%
Personal loans	117	1.1	179	1.3	197	1.1
Subtotal	6,772	66.5	8,389	60.6	9,474	52.5
Financial investments	1,635	16.1	2,870	20.8	4,184	23.2
Deposits with central bank	441	4.3	591	4.3	745	4.1
Deposits with banks and other financial institutions	403	4.0	1,773	12.8	3,270	18.1
Financial assets held under resale agreements	806	7.9	196	1.4	354	2.0
Placements with banks and other financial institutions	12	0.1	3	0.0	10	0.1
Financial assets at fair value through profit or loss	108	1.1	13	0.1	1	0.0
Total	10,177	100.0%	13,835	100.0%	18,038	100.0%

Our interest income increased by 35.9% from RMB10,177 million in 2011 to RMB13,835 million in 2012, primarily reflecting (i) an increase in the volume and interest rates of loans and advances to customers, (ii) an increase in the volume of deposits with banks and other financial institutions, and (iii) an increase in the volume and interest rates of financial investments. Our interest income increased by 30.4% from RMB13,835 million in 2012 to RMB18,038 million in 2013, primarily reflecting (i) an increase in the volume of deposits with banks and other financial institutions, (ii) an increase in the volume and interest rates of financial investments, and (iii) an increase in the volume of loans and advances to customers.

Interest Income from Loans and Advances to Customers

Interest income from loans and advances to customers is the largest component of our interest income, accounting for 66.5%, 60.6% and 52.5% of our interest income in 2011, 2012 and 2013, respectively.

The largest component of our interest income from loans and advances to customers is interest income from corporate loans, which accounted for 98.3%, 97.9% and 97.9% of our total interest income from loans and advances to customers in 2011, 2012 and 2013, respectively. The following table sets forth the average balance of loans and advances to customers, relevant interest income and average yield on loans and advances to customers for the periods indicated:

	Year ended December 31,								
	2011			2012			2013		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
	(in millions of RMB, except percentages)								
Corporate loans	93,924	6,655	7.09%	109,000	8,210	7.53%	127,712	9,277	7.26%
Personal loans	2,034	117	5.75%	2,855	179	6.27%	3,326	197	5.92%
Total	95,958	6,772	7.06%	111,855	8,389	7.50%	131,038	9,474	7.23%

2013 Compared to 2012. Interest income from loans to customers increased by 12.9% from RMB8,389 million in 2012 to RMB9,474 million in 2013, mainly due to an increase in the average balance of our loans to customers by 17.1% from RMB111,855 million for the year ended December 31, 2012 to RMB131,038 million for the year ended December 31, 2013 as a result of the growth of our corporate loan business, which was partially offset by the decrease in the average yield on loans to customers from 7.50% for the year ended December 31, 2012 to 7.23% for the year ended December 31, 2013 as a result of the lowering of the benchmark interest rates by the PBOC twice in 2012.

Interest income from corporate loans increased by 13.0% from RMB8,210 million in 2012 to RMB9,277 million in 2013, mainly due to an increase in the average balance of our corporate loans by 17.2% from RMB109,000 million for the year ended December 31, 2012 to RMB127,712 million for the year ended December 31, 2013, as a result of our enhanced cooperation with key customers and the expansion of the distribution network, which was partially offset by the decrease in the average yield on corporate loans from 7.53% for the year ended December 31, 2012 to 7.26% for the year ended December 31, 2013 as a result of the decrease in the benchmark interest rates.

Interest income from personal loans increased by 10.1% from RMB179 million in 2012 to RMB197 million in 2013, principally as a result of an increase in the average balance of our personal mortgage loans by 16.5% from RMB2,855 million for the year ended December 31, 2012 to RMB3,326 million for the year ended December 31, 2013 as a result of the growth of our personal loan business, which was partially offset by the decrease in the average yield on personal loans from 6.27% for the year ended December 31, 2012 to 5.92% for the year ended December 31, 2013, as a result of the lowering of the benchmark interest rates.

2012 Compared to 2011. Interest income from loans to customers increased by 23.9% from RMB6,772 million in 2011 to RMB8,389 million in 2012, mainly due to an increase in the average balance of our loans to customers by 16.6% from RMB95,958 million for the year ended December 31, 2011 to RMB111,855 million for the year ended December 31, 2012, as a result of the growth of our corporate loan business and an increase in the average yield on loans to customers from 7.06% for the year ended December 31, 2011 to 7.50% for the year ended December 31, 2012, as a result of the increase in the benchmark interest rates by the PBOC three times in 2011.

Interest income from corporate loans increased by 23.4% from RMB6,655 million in 2011 to RMB8,210 million in 2012, mainly due to an increase in the average balance of our loans by 16.1% from RMB93,924 million for the year ended December 31, 2011 to RMB109,000 million for the year ended December 31, 2012 resulting from our deepened cooperation with key customers and the expansion of the distribution network, and an increase in the average yield on corporate loans from 7.09% for the year ended December 31, 2011 to 7.53% for the year ended December 31, 2012, as a result of the increase in the benchmark interest rates.

Interest income from personal loans increased by 53.0% from RMB117 million in 2011 to RMB179 million in 2012, principally as a result of an increase in the average balance of our personal loans by 40.4% from RMB2,034 million for the year ended December 31, 2011 to RMB2,855 million for the year ended December 31, 2012 resulting from the growth of our personal mortgage loan business, and an increase in the average yield on personal loans from 5.75% for the year ended December 31, 2011 to 6.27% for the year ended December 31, 2012 as a result of the increase in the benchmark interest rates.

Interest Income from Financial Investments

In 2011, 2012 and 2013, interest income from financial investments accounted for 16.1%, 20.8% and 23.2%, respectively, of our interest income.

2013 Compared to 2012. Interest income from financial investments increased by 45.8% from RMB2,870 million in 2012 to RMB4,184 million in 2013, mainly because we adjusted our portfolio of financial investments in a reasonable manner according to market conditions and began to invest in directional asset management plans with higher yields, and because of the increase in yields on investments in trust beneficiary rights for the same period, which resulted in (i) an increase in the average balance of financial investments by 22.8% from RMB61,050 million for the year ended December 31, 2012 to RMB74,964 million for the year ended December 31, 2013 and (ii) an increase in the average yield on financial investments from 4.70% for the year ended December 31, 2012 to 5.58% for the year ended December 31, 2013.

2012 Compared to 2011. Interest income from financial investments increased by 75.5% from RMB1,635 million in 2011 to RMB2,870 million in 2012, mainly due to a significant increase in our investments in trust beneficiary rights with higher yields which resulted in (i) an increase in the average balance of financial investments by 35.4% from RMB45,084 million for the year ended December 31, 2011 to RMB61,050 million for the year ended December 31, 2012 and (ii) an increase in the average yield on financial investments from 3.63% for the year ended December 31, 2011 to 4.70% for the year ended December 31, 2012.

Interest Income from Deposits with Central Bank

In 2011, 2012 and 2013, interest income from deposits with the central bank accounted for 4.3%, 4.3% and 4.1%, respectively, of our interest income.

2013 Compared to 2012. Interest income from deposits with the central bank increased by 26.1% from RMB591 million in 2012 to RMB745 million in 2013, mainly due to the growth in the volume of our deposits, which in turn resulted in an increase in the balance of our statutory deposit reserves and surplus deposit reserves with the central bank.

2012 Compared to 2011. Interest income from deposits with the central bank increased by 34.0% from RMB441 million in 2011 to RMB591 million in 2012, primarily due to the growth in the volume of our deposits, which in turn resulted in an increase in the balance of our statutory deposit reserves with the central bank.

Interest Income from Deposits with Banks and Other Financial Institutions

In 2011, 2012 and 2013, interest income from deposits with banks and other financial institutions accounted for 4.0%, 12.8% and 18.1%, respectively, of our interest income.

2013 Compared to 2012. Interest income from deposits with banks and other financial institutions increased by 84.4% from RMB1,773 million in 2012 to RMB3,270 million in 2013, mainly because we increased the volume of deposits with banks and other financial institutions as we actively adjusted our operating strategy to balance the needs of liquidity and profitability and adapt to changing market conditions, which resulted in an increase in the average balance by 79.3% from RMB36,165 million for the year ended December 31, 2012 to RMB64,851 million for the year ended December 31, 2013.

2012 Compared to 2011. Interest income from deposits with banks and other financial institutions significantly increased from RMB403 million in 2011 to RMB1,773 million in 2012, mainly because we significantly increased the volume of deposits with banks and other financial institutions as we actively adjusted our operating strategy to balance the needs of liquidity and profitability and adapt to changing market conditions, which resulted in a significant increase in the average balance from RMB7,476 million for the year ended December 31, 2011 to RMB36,165 million for the year ended December 31, 2012.

Interest Income from Financial Assets Held under Resale Agreements

In 2011, 2012 and 2013, interest income from financial assets held under resale agreements accounted for 7.9%, 1.4% and 2.0%, respectively, of our interest income.

2013 Compared to 2012. Interest income from financial assets held under resale agreements increased by 80.6% from RMB196 million in 2012 to RMB354 million in 2013, mainly because we increased our investments in financial assets held under resale agreements as a result of asset allocation and we actively adjusted the operating strategy in order to adapt to the change in market liquidity, which resulted in an increase in the average balance by 71.9% from RMB4,378 million for the year ended December 31, 2012 to RMB7,526 million for the year ended December 31, 2013.

2012 Compared to 2011. Interest income from financial assets held under resale agreements significantly decreased from RMB806 million in 2011 to RMB196 million in 2012, mainly because we reduced our investments in financial assets held under resale agreements as a result of asset allocation and we actively adjusted the operating strategy in order to adapt to the change in market liquidity, which resulted in a decrease in the average balance by 75.7% from RMB18,026 million for the year ended December 31, 2011 to RMB4,378 million for the year ended December 31, 2012.

Interest Expense

The following table sets forth the principal components of our interest expense for the periods indicated:

	Year ended December 31,					
	2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Deposits from customers	(3,156)	65.3%	(4,492)	63.7%	(6,704)	65.7%
Deposits from banks and other financial institutions	(441)	9.1	(1,279)	18.1	(2,394)	23.5
Financial assets sold under repurchase agreements	(1,097)	22.7	(1,100)	15.6	(924)	9.1
Debt securities issued	(75)	1.6	(125)	1.8	(119)	1.2
Placements from banks and other financial institutions	(63)	1.3	(55)	0.8	(53)	0.5
Total	(4,832)	100.0%	(7,051)	100.0%	(10,194)	100.0%

Interest expense increased by 45.9% from RMB4,832 million in 2011 to RMB7,051 million in 2012 and increased by 44.6% to RMB10,194 million in 2013, principally as a result of an increase in the average balances of deposits from customers and deposits from banks and other financial institutions, and an increase in interest rates on deposits from customers.

Interest Expense on Deposits

Interest expense on deposits is the largest component of our interest expense, accounting for 65.3%, 63.7% and 65.7% of our interest expense in 2011, 2012 and 2013, respectively. The following table sets forth the average balance, interest expense and average cost for our corporate deposits and personal deposits by product type for the periods indicated:

	Year ended December 31,								
	2011			2012			2013		
	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost
	(in millions of RMB, except percentages)								
Corporate deposits[1]									
Time	39,110	1,502	3.84%	53,143	2,173	4.09%	94,349	3,943	4.18%
Demand	71,418	677	0.95	68,603	696	1.01	68,406	520	0.76
Subtotal	110,528	2,179	1.97	121,746	2,869	2.36	162,755	4,463	2.74
Personal deposits[1]									
Time	32,798	929	2.83	44,094	1,579	3.58	58,788	2,199	3.74
Demand	9,766	48	0.49	9,907	44	0.44	10,353	42	0.41
Subtotal	42,564	977	2.30	54,001	1,623	3.01	69,141	2,241	3.24
Total	153,092	3,156	2.06%	175,747	4,492	2.56%	231,896	6,704	2.89%

Note:

(1) Including pledged deposits held as collateral.

2013 Compared to 2012. Interest expense on deposits from customers increased by 49.2% from RMB4,492 million in 2012 to RMB6,704 million in 2013, mainly because (i) the balance of deposits from customers increased by 31.9% from RMB175,747 million for the year ended December 31, 2012 to RMB231,896 million for the year ended December 31, 2013; (ii) we raised our interest rate on deposits to 110% of the benchmark interest rate as a result of the PBOC allowing PRC commercial banks to raise the interest rate on RMB-denominated deposits from 100% to 110% of the PBOC benchmark interest rate since June 2012; and (iii) deposit customers tended to prefer time deposits and we optimized the maturity profile of our deposits and improved the stability of our deposit portfolio by increasing the proportion of time deposits to our total deposits, which resulted in an increase in the average cost of deposits from 2.56% for the year ended December 31, 2012 to 2.89% for the year ended December 31, 2013.

2012 Compared to 2011. Interest expense on deposits from customers increased by 42.3% from RMB3,156 million in 2011 to RMB4,492 million in 2012, mainly because (i) the balance of deposits from customers increased by 14.8% from RMB153,092 million for the year ended December 31, 2011 to RMB175,747 million for the year ended December 31, 2012; (ii) we raised our interest rate on deposits to 110% of the benchmark interest rate as a result of the PBOC allowing PRC commercial banks to raise the interest rate on RMB-denominated deposits from 100% to 110% of the PBOC benchmark interest rate since June 2012; and (iii) deposit customers tend to prefer time deposits and we optimised the maturity profile of our deposits and improved the stability of our deposit portfolio by increasing the proportion of time deposits with a longer term to our total deposits, which resulted in an increase in the average cost of deposits from 2.06% for the year ended December 31, 2011 to 2.56% for the year ended December 31, 2012.

Interest Expense on Deposits from Banks and Other Financial Institutions

In 2011, 2012 and 2013, our interest expense on deposits from banks and other financial institutions accounted for 9.1%, 18.1% and 23.5%, respectively, of our total interest expense.

2013 Compared to 2012. Interest expense on deposits from banks and other financial institutions increased by 87.2% from RMB1,279 million in 2012 to RMB2,394 million in 2013, primarily due to an increase of 53.9% in the average balance of deposits from banks and other financial institutions from RMB31,075 million for the year ended December 31, 2012 to RMB47,821 million for the year ended December 31, 2013.

2012 Compared to 2011. Interest expense on deposits from banks and other financial institutions significantly increased from RMB441 million in 2011 to RMB1,279 million in 2012, primarily due to a substantial increase in the average balance of deposits from banks and other financial institutions from RMB8,478 million for the year ended December 31, 2011 to RMB31,075 million for the year ended December 31, 2012.

Interest Expense on Financial Assets Sold under Repurchase Agreements

2013 Compared to 2012. Interest expense on financial assets sold under repurchase agreements decreased by 16.0% from RMB1,100 million in 2012 to RMB924 million in 2013, primarily due to the decrease in the average balance of financial assets sold under repurchase agreements by 20.5%, from RMB27,952 million for the year ended December 31, 2012 to RMB22,217 million for the year ended December 31, 2013, which was caused by our appropriate short term capital operation according to the general financial position and market interest rates.

2011 Compared to 2012. Interest expense on financial assets sold under repurchase agreements increased by 0.3% from RMB1,097 million in 2011 to RMB1,100 million in 2012, mainly due to the increase in the average balance of financial assets sold under repurchase agreements by 13.7%, from RMB24,590 million for the year ended December 31, 2011 to RMB27,952 million for the year ended December 31, 2012, as we conducted appropriate short term capital operation according to the general financial position and market interest rates, which was partially offset by the decrease in average cost of financial assets sold under repurchase agreements from 4.46% for the year ended December 31, 2011 to 3.94% for the year ended December 31, 2012 resulting from the decline of inter-bank market interest rates.

Interest Expense on Debt Securities Issued

In 2011, 2012 and 2013, our interest expense on debt securities issued was RMB75 million, RMB125 million and RMB119 million, respectively, accounting for 1.6%, 1.8% and 1.2%, respectively, of our total interest expense.

2013 Compared to 2012. Interest expense on debt securities issued decreased by 4.8% from RMB125 million in 2012 to RMB119 million in 2013, mainly because in 2013 we redeemed in full the subordinated debt securities issued in 2008 with a principal amount of RMB1,200 million.

2012 Compared to 2011. Interest expense on debt securities issued increased by 66.7% from RMB75 million in 2011 to RMB125 million in 2012, mainly because we issued subordinated bonds with a principal amount of RMB900 million in November 2011 and the interest rate applicable to such subordinated bonds was higher, which resulted in higher overall average cost of the bonds.

Interest Expense on Placements from Banks and Other Financial Institutions

In 2011, 2012 and 2013, our interest expense on placements from banks and other financial institutions was RMB63 million, RMB55 million and RMB53 million, respectively, accounting for 1.3%, 0.8% and 0.5%, respectively, of our total interest expense.

2013 Compared to 2012. Interest expense on placements from banks and other financial institutions decreased by 3.6% from RMB55 million in 2012 to RMB53 million in 2013, primarily due to a decrease in the average cost of placements from banks and other financial institutions from 3.14% for the year ended December 31, 2012 to 2.52% for the year ended December 31, 2013 resulting from the decline of inter-bank market interest rates, which was partially offset by the increase in average balance of these liabilities by 19.8% from RMB1,753 million for the year ended December 31, 2012 to RMB2,100 million for the year ended December 31, 2013.

2012 Compared to 2011. Interest expense on placements from banks and other financial institutions decreased by 12.7% from RMB63 million in 2011 to RMB55 million in 2012, primarily due to a decrease in the average cost of placements from banks and other financial institutions from 3.56% for the year ended December 31, 2011 to 3.14% for the year ended December 31, 2012 resulting from the decline of inter-bank market interest rates, and the decrease in the average balance of placements from banks and other financial institutions by 1.0% from RMB1,770 million for the year ended December 31, 2011 to RMB1,753 million for the year ended December 31, 2012.

Net Interest Spread and Net Interest Margin

2013 Compared to 2012. Our net interest spread decreased from 2.52% in 2012 to 2.17% in 2013. Our net interest margin decreased from 2.68% in 2012 to 2.39% in 2013. The decrease in net interest spread and net interest margin was mainly because (i) the proportion of the average balance of loans and advances to customers to total interest-earning assets decreased, which resulted in a lower growth rate of the average yield on interest-earning assets. The yield of loans and advances to customers ranked highest amongst our interest-earning assets; and (ii) the proportion of time deposits to total interest-bearing liabilities increased, which resulted in a higher average cost of deposits.

2012 Compared to 2011. Our net interest spread decreased from 2.59% in 2011 to 2.52% in 2012. Our net interest margin decreased from 2.70% in 2011 to 2.68% in 2012. The decrease in net interest spread and net interest margin was mainly because (i) the proportion of the average balance of loans and advances to customers to total interest-earning assets decreased, which resulted in a lower growth rate of the average yield on interest-earning assets. The yield of loans and advances to customers ranked highest amongst our interest-earning assets; and (ii) the proportion of time deposits to total interest-bearing liabilities increased, which resulted in higher average cost of deposits.

Net Fee and Commission Income

Net fee and commission income represented 1.2%, 1.6% and 8.6% of our total operating income in 2011, 2012 and 2013, respectively. The following table sets forth the principal components of our net fee and commission income for the periods indicated:

	Year ended December 31,		
	2011	**2012**	**2013**
	(in millions of RMB)		
Fee and commission income			
Agency and custody service fees	49	80	727
Settlement and clearing fees	33	49	64
Bank card service fees	23	27	37
Subtotal	105	156	828
Fee and commission expense			
Bank card service expenses	(24)	(34)	(47)
Agency and custody service expenses	(15)	(7)	(10)
Settlement and clearing expenses	(1)	(3)	(1)
Subtotal	(40)	(44)	(58)
Net fee and commission income	65	112	770

Our net fee and commission income increased significantly from RMB112 million in 2012 to RMB770 million in 2013, primarily reflecting our significant increase in agency and custody service fees in order to increase the income from the intermediary business as a percentage of the operating income. Our net fee and commission income increased by 72.3% from RMB65 million in 2011 to RMB112 million in 2012, primarily reflecting our significant increase in agency and custody service fees and settlement and clearing services with an aim to increase the income from the intermediary business as a percentage of the operating income.

Fee and Commission Income

Fee and commission income increased by 48.6% from RMB105 million in 2011 to RMB156 million in 2012 and increased significantly from RMB156 million in 2012 to RMB828 million in 2013, primarily due to a significant increase in the income from the agency and custody services in order to increase the income from the intermediary business as a percentage of our operating income.

Agency and custody service fees increased by 63.3% from RMB49 million in 2011 to RMB80 million in 2012 and increased significantly from RMB80 million in 2012 to RMB727 million in 2013. The changes in the agency and custody service fees in 2011, 2012 and 2013 were primarily due to the increases in the scale of the trust funds to which we provided custody services due to our expansion of such business in 2013 as we aimed to maintain business relationship with customers through diversified financial products in the backdrop of financial disintermediation and market interest rate liberalization, which promoted the increase of custody service fees for trust fund.

Settlement and clearing fees increased by 48.5% from RMB33 million in 2011 to RMB49 million in 2012, primarily due to the expansion of the acceptance business. Settlement and clearing fees increased by 30.6% from RMB49 million in 2012 to RMB64 million in 2013, primarily due to the expansion of the acceptance business and the international settlement business.

Bank card service fees increased by 17.4% from RMB23 million in 2011 to RMB27 million in 2012, primarily due to an increase in the number of bank cards issued by us and the volume of transactions. Bank card service fees increased by 37.0% from RMB27 million in 2012 to RMB37 million in 2013, primarily due to an increase in the number of bank cards issued by us and the volume of transactions.

Fee and Commission Expenses

Our fee and commission expenses increased by 10.0% from RMB40 million in 2011 to RMB44 million in 2012, and increased by 31.8% to RMB58 million in 2013, primarily due to the expansion of our fee and commission business.

Our bank card service expenses increased by 41.7% from RMB24 million in 2011 to RMB34 million in 2012, primarily due to an increase in the number of our bank cards in issue and the volume of transactions. Our bank card service expenses increased by 38.2% from RMB34 million in 2012 to RMB47 million in 2013, primarily due to an increase in the number of our bank cards in issue and the volume of transactions.

Net Trading (Losses)/Gains, Net (Losses)/Gains Arising from Financial Investments and Other Operating Income

The following table sets forth our net trading (losses)/gains, net (losses)/gains arising from financial investments and other operating income for the periods indicated:

	Year ended December 31,		
	2011	**2012**	**2013**
	(in millions of RMB)		
Net trading (losses)/gains	(30)	3	(2)
Net (losses)/gains arising from financial investments	(11)	(32)	208
Other operating income	45	41	85
Total	4	12	291

Net Trading (Losses)/Gains

We recorded a net trading loss of RMB2 million in 2013 compared to a net trading gain of RMB3 million in 2012, primarily due to the loss from foreign exchange, which was partially offset by the decrease in the loss in held-for-trading bonds. We recorded a net trading gain of RMB3 million in 2012 compared to a net trading loss of RMB30 million in 2011, primarily due to a significant increase in the income from foreign exchange gain and a decrease in the loss in held-for-trading bonds.

Net (Losses)/Gains Arising from Financial Investments

The following table sets forth the principal components of our net (losses)/gains arising from financial investments for the periods indicated:

	Year ended December 31,		
	2011	**2012**	**2013**
	(in millions of RMB)		
Net (losses)/gains on disposal of available-for-sale financial assets	(17)	(47)	202
Dividends from available-for-sale equity investment	6	15	6
Total	(11)	(32)	208

Our net loss arising from financial investments was RMB32 million in 2012 compared to net gain arising from financial investments of RMB208 million in 2013, mainly because we realized gains through disposal of part of the government bonds and bonds issued by policy banks and all of our equity investment in Fuxin Bank Co., Ltd. in 2013. Our net loss arising from financial investments was RMB11 million in 2011 compared to a loss arising from financial investments of RMB32 million in 2012, mainly because we disposed of part of the floating-rate bonds issued by policy banks in 2012 based on the estimate of the trend of market rates.

Other Operating Income

2013 Compared to 2012. Our other operating income increased significantly from RMB41 million in 2012 to RMB85 million in 2013, mainly due to the increase in gain from the disposal of foreclosed assets.

2012 Compared to 2011. Our other operating income decreased by 8.9% from RMB45 million in 2011 to RMB41 million in 2012, mainly due to the net gain from disposal of part of the fixed assets in 2011 and the net loss from disposal of part of the fixed assets in 2012.

Operating Expense

The following table sets forth the principal components of our operating expenses for the periods indicated:

	Year ended December 31,		
	2011	**2012**	**2013**
	(in millions of RMB)		
Staff costs	637	705	879
Business taxes and surcharges	429	580	753
Office expenses, rent and property management expenses	291	337	407
Depreciation and amortization	220	218	225
Other operating expenses	150	177	181
Total	1,727	2,017	2,445

Our operating expenses increased by 16.8% from RMB1,727 million in 2011 to RMB2,017 million in 2012, and increased by 21.2% from 2,017 million in 2012 to RMB2,445 million in 2013, principally as a result of increases in business taxes and surcharges, staff costs and rent and property management fees. In 2011, 2012 and 2013, the cost-to-income ratio (excluding business taxes and additional taxes) was 23.97%, 20.80% and 19.00%, respectively. The decrease in cost-to-income ratio was primarily because the rate of increase in operating income was greater than the increase in operating expenses over the same period.

Staff Costs

The following table sets forth the principal components of our staff costs for the periods indicated:

	Year ended December 31,		
	2011	**2012**	**2013**
	(in millions of RMB)		
Salaries, bonuses and allowances	473	519	650
Basic and complementary pension insurance	65	75	90
Other four social insurance schemes	23	28	43
Housing provident fund	35	39	43
Complementary retirement benefits	10	5	1
Other social security and welfare expenses	31	39	52
Total	637	705	879

Staff costs increased by 10.7% from RMB637 million in 2011 to RMB705 million in 2012, and increased by 24.7% from RMB705 million in 2012 to RMB879 million in 2013. The change in staff costs in these periods was primarily due to an increase in the number of staff resulting from the business expansion and an increase in the salary level.

Business Taxes and Surcharges

Business taxes and surcharges increased by 35.2% from RMB429 million in 2011 to RMB580 million in 2012 and increased by 29.8% to RMB753 million in 2013, principally as a result of the increase in taxable income.

Office Expenses, Rent and Property Management Expenses

Office expenses, rent and property management fees increased by 15.8% from RMB291 million in 2011 to RMB337 million in 2012, mainly due to (i) the increase in maintenance fees for electronic facilities, rent and security expenses; and (ii) the increase in office expenses due to our business expansion. Our office expenses, rent and property management fees increased by 20.8% from RMB337 million in 2012 to RMB407 million in 2013, primarily reflecting (i) the increase in rent due to the expansion of business outlets; and (ii) the increase in office expenses due to our business expansion.

Depreciation and Amortization

In 2011, 2012 and 2013, our depreciation and amortization were RMB220 million, RMB218 million and RMB225 million, respectively.

Other Operating Expenses

Other operating expenses increased by 18.0% from RMB150 million in 2011 to RMB177 million in 2012 and increased by 2.3% to RMB181 million in 2013, principally as a result of the increase in accommodation expenses, promotion expenses, car rental fees and other business and management fees due to our business expansion.

Impairment Losses on Assets

The following table sets forth the principal components of our impairment losses on assets for the periods indicated:

	Year ended December 31,		
	2011	**2012**	**2013**
	(in millions of RMB)		
Loans and advances to customers	446	352	186
Others[1]	–	80	(14)
Total	446	432	172

Note:

(1) Primarily consist of provision for/(reversal of) impairment losses on other assets.

Impairment losses on loans and advances to customers accounted for a substantial portion of our impairment losses on assets. Our impairment losses on loans to customers decreased from RMB446 million for the year ended December 31, 2011 to RMB352 million for the year ended December 31, 2012, and decreased to RMB186 million for the year ended December 31, 2013, mainly reflecting that we strictly enforced investigation before lending, post-lending inspection and follow-up management of non-performing loans, which improved the quality of loans to customers. For further details of the improvement of the quality of loans to customers, see "Description of Our Assets and Liabilities – Assets – Asset Quality of Our Loan Portfolio".

Income Tax

The following table sets forth the reconciliation between the income tax expenses calculated at the statutory income tax rate applicable to our profit before tax and our actual income tax expenses for the periods indicated:

	Year ended December 31,		
	2011	**2012**	**2013**
	(in millions of RMB)		
Profit before tax	3,275	4,483	6,308
Income tax calculated at statutory tax rate of 25.0%	819	1,121	1,577
Tax effect of non-taxable income[1]	(170)	(164)	(141)
Tax effect of non-deductible expenses[2]	14	18	24
Adjustment for prior years	–	(1)	(41)
Income tax expense	663	974	1,419

Notes:

(1) Primarily consists of interest income from PRC government bonds and dividend income from PRC domestic enterprises, which are exempted from income taxes under PRC tax law.

(2) Primarily consists of the portion of expenses in excess of the statutory deductible limit under PRC tax law.

In 2011, 2012 and 2013, our income tax expense was RMB663 million, RMB974 million and RMB1,419 million, respectively, representing an effective income tax rate of 20.2%, 21.7% and 22.5%, respectively. The increases in tax expense in 2011, 2012 and 2013 were primarily attributable to increases in profit before tax.

The following table sets forth the components of our income tax expenses for the periods indicated:

	Year ended December 31,		
	2011	2012	2013
	(in millions of RMB)		
Current tax	723	1,039	1,389
Deferred tax	(60)	(65)	30
Income tax expense	663	974	1,419

Net Profit

As a result of the foregoing, our net profit increased by 34.3% from RMB2,612 million in 2011 to RMB3,509 million in 2012, and increased by 39.3% from RMB3,509 million in 2012 to RMB4,889 million in 2013.

Summary of Segment Operating Results

Based on our products and services, we identify business segments, which mainly include corporate banking, retail banking and treasury business. See "Business – Our Principal Businesses". The following table sets forth the operating income of each of our business segments for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2011		2012		2013		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)									
Corporate banking	4,865	89.9%	5,988	86.7%	6,711	75.4%	2,956	73.6%	3,885	74.2%
Retail banking	278	5.1	348	5.0	424	4.8	201	5.0	243	4.6
Treasury business	240	4.4	538	7.8	1,594	17.8	859	21.3	1,214	23.2
Others(1)	31	0.6	34	0.5	176	2.0	3	0.1	(103)	(2.0)
Total	5,414	100.0%	6,908	100.0%	8,905	100.0%	4,019	100.0%	5,239	100.0%

Note:

(1) Others include primarily income from investment in associates. In the six months ended June 30, 2014, the operating loss from others included primarily the losses from cessation of significant influence over investment in an associate of RMB127 million. See "– Result of Operations – Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013 – Net Trading (Losses)/Gains, Net (Losses)/Gains Arising from Financial Investments and Other Operating Income – Net (Losses)/Gains Arising from Financial Investments" for details.

Summary of Segment Information by Geographical Regions

In presenting information on the basis of geographical regions, operating income is gathered according to the locations of the branches or subsidiaries that generated the income. For the purpose of presentation, we categorize such information by geographical regions. The following table sets forth the total operating income of each of the geographical regions for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2011		2012		2013		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)									
Operating income										
Northeast China	4,262	78.7%	5,761	83.4%	7,537	84.6%	3,315	82.5%	4,454	85.0%
North China	1,102	20.4	1,009	14.6	1,253	14.1	631	15.7	675	12.9
Other regions[1]	50	0.9	138	2.0	115	1.3	73	1.8	110	2.1
Total	5,414	100.0%	6,908	100.0%	8,905	100.0%	4,019	100.0%	5,239	100.0%

Note:

(1) Other regions refer to those business outlets located outside Northeast China or North China.

We mainly operated our business in Northeast China. In the year ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, operating income from Northeast China accounted for 78.7%, 83.4%, 84.6% and 85.0%, respectively, of our total operating income.

In the year ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, operating income from North China was RMB1,102 million, RMB1,009 million, RMB1,253 million and RMB675 million, respectively. The operating income from North China decreased by 8.4% from RMB1,102 million in 2011 to RMB1,009 million in 2012, mainly because deposits grew at a faster rate than that of loans, and interest expense on deposits increased as the branches in North China proactively developed the deposit business in 2012.

In the year ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, operating income from other regions accounted for 0.9%, 2.0%, 1.3% and 2.1%, respectively, of our total operating income. The percentage of operating income from other regions decreased from 2.0% in 2012 to 1.3% in 2013, mainly because deposits grew at a faster rate than that of loans, which resulted in an increase in interest expenses, as the Shanghai branch since its establishment in 2011 proactively developed its deposit business in 2012 and 2013.

FINANCIAL POSITION

Liquidity

Liquidity risk refers to the risk of being unable to finance funds or liquidate an asset at a reasonable cost and in a timely manner to fulfill payment obligations. The planning and accounting management department of our head office carries out policies and strategies related to our day-to-day liquidity risk under the supervision of our assets and liabilities management committee. For details, see "Risk Management – Liquidity Risk Management".

We are exposed to daily demands on our available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees and from margin and other calls on cash-settled derivatives. We do not, nor are we required to, maintain cash resources to meet all these needs, and based on our experience, a portion of the maturing deposits will be rolled over and continue to remain with us. We set limits on the minimum proportion of maturing funds available to meet such demands and the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. Liquidity required to support demands made under guarantees and standby letters of credit are considerably less than the amounts required under other credit commitments because we do not generally expect the potential recipient to draw funds under those agreements. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The following table sets forth the remaining maturities of assets and liabilities as of the date indicated:

	As of June 30, 2014							
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	More than 5 years	Indefinite	Total amount
	(in millions of RMB)							
Assets								
Cash and deposits with central bank	18,118	–	–	–	–	–	50,276	68,394
Deposits with banks and other financial institutions	556	11,496	15,534	28,880	38,112	–	–	94,578
Placements with banks and non-bank financial institutions	–	369	15	–	–	–	–	384
Financial assets held under resale agreements	–	2,785	4,207	8,358	–	–	–	15,350
Loans and advances to customers	314	6,758	12,591	63,369	55,921	5,938	632	145,523
Financial Investments	–	4,314	11,563	42,798	30,237	27,416	276	116,604
Other assets	216	1,988	403	883	883	1	3,920	8,294
Total assets	19,204	27,710	44,313	144,288	125,153	33,355	55,104	449,127
Liabilities								
Deposits from banks and non-bank financial institutions	(5,545)	(10,230)	(14,016)	(29,174)	(9,851)	–	–	(68,816)
Placements from banks and other financial institutions	–	(431)	(695)	(591)	–	–	–	(1,717)
Financial assets sold under repurchase agreements	–	(42,060)	(1,097)	(2,234)	–	–	–	(45,391)
Deposits from customers	(86,749)	(24,045)	(21,221)	(84,590)	(78,629)	(700)	–	(295,934)
Debt securities issued	–	–	–	–	–	(3,100)	–	(3,100)
Other liabilities	(898)	(793)	(1,497)	(2,833)	(2,415)	(131)	–	(8,567)
Total liabilities	(93,192)	(77,559)	(38,526)	(119,422)	(90,895)	(3,931)	–	(423,525)
Net liquidity gap	(73,988)	(49,849)	5,787	24,866	34,258	29,424	55,104	25,602

Cash Flows

The following table sets forth our cash flows for the periods indicated. See Appendix I – "Accountants' Report – A. Consolidated Financial Information of the Group – IV. Consolidated cash flow statements".

	Year ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013 (unaudited)	2014
	(in millions of RMB)				
Net cash flow (used in)/generated from operating activities	(10,184)	56,698	(32,063)	9,970	26,319
Net cash flow (used in)/generated from investing activities	(9,350)	(14,957)	(3,530)	(9,092)	(40,647)
Net cash flow generated from/(used in) financing activities	2,330	(477)	874	–	3,843
Effect of foreign exchange rate changes on cash and cash equivalents	(61)	(2)	(33)	(20)	4
Net (decrease)/increase in cash and cash equivalents	(17,265)	41,262	(34,752)	858	(10,481)

Cash Flows from Operating Activities

Cash inflow from operating activities primarily consists of net increases in deposits from customers, net increases in placements from banks and other financial institutions, and net increases in financial assets sold under repurchase agreements.

Cash outflow from operating activities primarily consists of net increases in deposits with the central bank, banks and other financial institutions and net increases in loans to customers.

Net cash inflow from operating activities increased significantly from RMB9,970 million in the six months ended June 30, 2013 to RMB26,319 million in the same period in 2014, primarily due to (i) net increase in financial assets sold under repurchase agreements; (ii) net increases in deposits and loans from banks and other financial institutions, the effect of which was partially offset by the net increase in the deposits with the central bank, banks and other financial institutions.

Net cash inflow from operating activities of RMB56,698 million was recorded in 2012 and net cash outflow from the same of RMB32,063 million was recorded in 2013, primarily due to (i) lower net increase in financial assets sold under repurchase agreements; (ii) net increase in deposits and loans from banks and non-bank financial institutions and (iii) lower net increase in deposits and loans from banks and other other financial institutions.

Net cash outflow from operating activities of RMB10,184 million was recorded in 2011 and net cash inflow from the same of RMB56,698 million was recorded in 2012, primarily due to (i) higher net increase in deposits and loans from customers; and (ii) higher net increase in financial assets sold under repurchase agreements.

Cash Flows from Investing Activities

Cash inflow from investing activities is primarily attributable to proceeds from the disposal or maturity of financial investments. Cash outflow from investing activities is primarily attributable to payments for purchases of financial investments and payments for purchases of fixed assets, intangible assets and other long-term assets.

Net cash outflow from investing activities increased significantly from RMB9,092 million in the six months ended June 30, 2013 to RMB40,647 million in the same period in 2014, primarily due to an increase in the volume of investments in directional asset management plans and debt securities.

Net cash outflow from investing activities significantly decreased from RMB14,957 million in 2012 to RMB3,530 million in 2013, primarily due to the slowdown of the growth of our investment in debt securities in 2013.

Net cash outflow from investing activities increased by 60.0% from RMB9,350 million in 2011 to RMB14,957 million in 2012, mainly because we increased the volume of investments in trust beneficiary rights.

Cash Flows from Financing Activities

Cash inflow from financing activities is primarily attributable to proceeds from our issuance of debts while cash outflow from financing activities is primarily attributable to interest paid on bonds.

Net cash inflow from financing activities increased significantly from RMB318,000 in the six months ended June 30, 2013 to RMB3,843 million in the same period in 2014, mainly due to (i) tier 2 capital bonds in an aggregate principal of RMB2,200 million we issued in May 2014; and (ii) the capital fund of RMB1,650 million raised from 300 million shares we issued in 2014.

Net cash outflow from financing activities of RMB477 million was recorded in 2012 and net cash inflow from the same of RMB874 million was recorded in 2013, mainly because we raised capital of RMB2.2 billion by issuing 400 million shares in 2013. In addition, we also redeemed the subordinated bonds issued in 2008 of full principal amount of RMB1,200 million, which partially offset the cash inflow from the capital raise.

Net cash inflow from financing activities of RMB2,330 million was recorded in 2011 and net cash outflow from the same of RMB477 million was recorded in 2012, mainly because cash flowed in as we raised funds of RMB1.5 billion through bond issuance and capital raise in 2011, and we distributed dividends of RMB352 million to shareholders in 2012 and paid the interest on subordinated bonds of RMB124 million.

Capital Resources

Shareholders' Equity

The following table sets forth the principal components of our shareholders' equity as of the dates indicated:

	As of December 31,			As of June 30,
	2011	**2012**	**2013**	**2014**
	(in millions of RMB)			
Share capital	3,696	3,696	4,096	4,396
Capital reserve	2,022	2,022	3,822	5,172
Surplus reserve	875	1,223	1,709	2,194
General reserve	1,117	1,224	3,318	3,546
Investment revaluation reserve	247	28	(252)	136
(Deficit)/surplus on remeasurement of net defined benefit liability	(1)	–	3	1
Retained earnings	3,402	6,073	8,359	9,730
Non-controlling interests	–	392	415	427
Total	11,358	14,658	21,470	25,602

June 30, 2014 Compared to December 31, 2013

Share capital. Our share capital was RMB4,096 million and RMB4,396 million as of December 31, 2013 and June 30, 2014, respectively. The increase in our share capital was mainly due to the 300 million shares we issued in 2014.

Capital reserve. Our capital reserve was RMB3,822 million and RMB5,172 million as of December 31, 2013 and June 30, 2014, respectively. The increase in our capital reserve was mainly due to the 300 million shares we issued in 2014 with a capital injection of RMB1,650 million which resulted in creation of share premium of RMB1,350 million.

Other reserves. Other reserves mainly include surplus reserve, general reserve, investment revaluation reserve and (deficit)/surplus on remeasurement of net defined benefit liability. We had other reserves of RMB4,778 million and RMB5,877 million as of December 31, 2013 and June 30, 2014, respectively. The increase in our other reserves was mainly due to the increase in our surplus reserve.

Retained earnings. We had retained earnings of RMB8,359 million and RMB9,730 million as of December 31, 2013 and June 30, 2014, respectively. The increase in our retained earnings was due to the increase in our net profits, which was partially offset by the distribution in the first quarter of 2014 of the profits from 2013.

Non-controlling interests. We had non-controlling interests of RMB415 million and RMB427 million as of December 31, 2013 and June 30, 2014, respectively. The increase in our non-controlling interests was due to an increase in the net profits of the six county banks in which we invested.

December 31, 2013 Compared to December 31, 2012

Share capital. Our share capital was RMB3,696 million and RMB4,096 million as of December 31, 2012 and 2013, respectively. Our share capital increased because we issued 400 million shares to raise capital in 2013.

Capital reserve. Our capital reserve was RMB2,022 million and RMB3,822 million as of December 31, 2012 and 2013, respectively. Our capital reserve increased because we issued 400 million shares to raise capital in 2013 with the actual capital contribution of RMB2,200 million which resulted in creation of share capital premium of RMB1,800 million.

Other reserves. Our other reserves were RMB2,475 million and RMB4,778 million as of December 31, 2012 and 2013, respectively. The increase in our other reserves was mainly due to the significant increase in our general reserve as the MOF raised the ratio of general reserve of financial enterprises from 1.0% to 1.5% of the balance of all the risk assets as of the balance sheet date in 2012.

Retained earnings. We had retained earnings of RMB6,073 million and RMB8,359 million as of December 31, 2012 and 2013, respectively. The increase in our retained earnings was due to an increase in our profits, which was partially offset by the increase in surplus reserve and general reserve.

Non-controlling interests. Our non-controlling interests were RMB392 million and RMB415 million as of December 31, 2012 and 2013, respectively. The increase in our non-controlling interests was due to an increase in the net profits of the six county banks of which we held shares.

December 31, 2012 Compared to December 31, 2011

Share capital. Our share capital was RMB3,696 million as of December 31, 2011 and 2012.

Capital reserve. Our capital reserve was RMB2,022 million as of December 31, 2011 and 2012.

Other reserves. Our other reserves were RMB2,238 million and RMB2,475 million as of December 31, 2011 and 2012, respectively. The increase in our other reserves was mainly due to an increase in surplus reserve and general reserve, which was partially offset by the decrease of the investment revaluation reserve.

Retained earnings. We had retained earnings of RMB3,402 million and RMB6,073 million as of December 31, 2011 and 2012, respectively. The increase in our retained earnings was due to an increase in our profits, which was partially offset by the increase in surplus reserve and general reserve and the distribution of dividends.

Non-controlling interests. We had no non-controlling interests as of December 31, 2011. We owned non-controlling interests of RMB392 million as of December 31, 2012, mainly because in June 2012 we acquired the right to control the financial affairs and operations of six county banks we invested in, and as a result, we have consolidated such six banks in our consolidated financial statements since June 30, 2012.

Investments in Subsidiaries

We have consolidated the six county banks that we established as a promoter and control in our consolidated financial statements since June 28, 2012 according to IFRS 10. When assessing the control over the six county banks, we considered the following major factors: (i) our decision making power over the county banks, (ii) our equity exposure in terms of the dividends and share of residual interests of the net assets of the county banks upon liquidation, and (iii) the nature and magnitude of our additional exposure to the business risk of the county banks. According to the revised articles of association approved by the general meetings of the county banks which became effective on June 28, 2012, the financial and operational policies of the county banks should be determined by the Bank. As a result, since June 28, 2012, we unilaterally directed the significant relevant activities of the county banks. We appointed key management personnel of the county banks, provided the county banks with banking and IT expertise, and monitored the major business risk of the county banks.

Debt Securities Issued

We issued ten-year subordinated bonds in each of 2008 and 2011, consisting of: (i) fixed-rate subordinated bonds in an aggregate principal amount of RMB1.2 billion due on December 1, 2018, the interest rate on which is 5.50% per annum for the first five years and, if not redeemed at the end of the fifth year, increases by 2.50% in the following five years, and such bonds were fully redeemed in 2013; and (ii) fixed-rate subordinated bonds in an aggregate principal amount of RMB900 million due on November 4, 2021, the interest rate on which is 6.50% per annum. We issued a tranche of ten-year Tier 2 capital bonds in an aggregate principal amount of RMB2.2 billion due on May 30, 2024, at a fixed interest rate of 6.18% per annum.

Capital Adequacy

On February 23, 2004, the CBRC promulgated the Capital Adequacy Measures, which required commercial banks in the PRC to maintain a minimum core capital adequacy ratio of 4.0% and a capital adequacy ratio of 8.0%. See "Supervision and Regulation – Supervision Over Capital Adequacy – Latest CBRC Supervisory Standards Over Capital Adequacy".

On June 7, 2012, the CBRC promulgated the Capital Administrative Measures, which became effective on January 1, 2013. The Capital Administrative Measures set forth the capital adequacy requirements for different tiers of capital, and provide for a transition period between 2013 and 2018, during which the minimum capital adequacy ratios are raised each year.

According to the transitional requirements applicable to commercial banks other than systemically important banks, as of December 31, 2013, the core Tier 1 capital adequacy ratio shall not be lower than 5.5%; the Tier 1 capital adequacy ratio shall not be lower than 6.5%; and the capital adequacy ratio shall not be lower than 8.5%. See "Supervision and Regulation – Supervision Over Capital Adequacy – Time Limit for Meeting the Requirements".

The following table sets forth, as of the dates indicated, certain information relating to our capital adequacy calculated under the Capital Adequacy Measures. The basis of calculation of the information is identical to the basis of calculation of the ratios that we submitted to the CBRC Liaoning Bureau:

	As of December 31,	
	2011	**2012**
	(in millions of RMB, except percentages)	
Core capital:		
Share capital	3,696	3,696
Qualifying portion of capital reserves	2,022	2,022
Surplus reserves and general reserves	1,992	2,447
Qualifying portion of retained earnings	3,031	6,073
Non-controlling interests	–	392
Subtotal	10,741	14,630
Supplementary capital:		
General provision for loan impairment	1,157	1,461
Long-term subordinated debts	2,100	2,100
Other supplementary capital	659	549
Subtotal	3,916	4,110
Counted supplementary capital	3,916	4,110
Total capital base before deductions	14,657	18,740
Deductions:		
Equity investments in financial institutions	(564)	(444)
Equity investments in industrial and commercial enterprises	–	–
Equity investments in real property	–	–
Other deductions	–	–
Subtotal	(564)	(444)
Net capital after deductions	14,093	18,296
Risk-weighted assets:		
Total risk-weighted assets	117,213	153,486
Market risk capital	–	–
Capital adequacy ratio	12.02%	11.92%
Core capital adequacy ratio	8.92%	9.39%

As of December 31, 2011 and 2012, our capital adequacy ratio calculated under the Capital Adequacy Measures was 12.02% and 11.92%, respectively, and our core capital adequacy ratio calculated under the Capital Adequacy Measures was 8.92% and 9.39%, respectively. The ratios as of December 31, 2011 and 2012 were in compliance with the CBRC requirements.

The following table sets forth certain information relating to our capital adequacy as of December 31, 2013 and June 30, 2014 calculated under the Capital Administrative Measures effective as of January 1, 2013:

	As of December 31, 2013	**As of June 30, 2014**
	(in millions of RMB, except percentages)	
Core capital:		
Share capital	4,096	4,396
Qualifying portion of capital reserve	3,573	5,309
Surplus reserves and general reserves	5,027	5,740
Qualifying portion of retained earnings	8,359	9,730
Qualifying portion of non-controlling interests	413	346
Core Tier 1 capital deductible items:		
Fully deductible items	(53)	(50)
Threshold deductible items	–	–
Net total core Tier 1 capital	21,415	25,471
Other Tier 1 capital	–	–
Net Tier 2 capital	2,339	4,802
Net capital	23,754	30,273
Total risk-weighted assets	212,675	260,771
Core Tier 1 capital adequacy ratio	10.07%	9.77%
Tier 1 capital adequacy ratio	10.07%	9.77%
Capital adequacy ratio	11.17%	11.61%

As of December 31, 2013, based on the calculation under the Capital Administrative Measures, our core Tier 1 capital adequacy ratio was 10.07%, our Tier 1 capital adequacy ratio was 10.07%, and our capital adequacy ratio was 11.17%, which were in compliance with the CBRC requirements pursuant to the transitional requirements as applicable on December 31, 2013.

As of June 30, 2014, based on the calculation under the Capital Administrative Measures, our core Tier 1 capital adequacy ratio was 9.77%, our Tier 1 capital adequacy ratio was 9.77%, and our capital adequacy ratio was 11.61%, which were in compliance with the CBRC requirements pursuant to the transitional requirements as applicable on December 31, 2013.

We plan to comply with the Capital Administrative Measures in the following manner: (i) continuously supplementing core capital through accumulation of retained earnings; (ii) strengthening the routine monitoring of the measurement and calculation of capital adequacy ratios, and strictly controlling the growth rate of risk-weighted assets; and (iii) developing a sustainable capital replenishment mechanism to address capital constraint risk.

Credit Commitments and Other Off-Balance Sheet Items

Our credit commitments and other off-balance sheet items primarily consist of bank acceptances, issued letters of credit, issued letters of guarantees, unused credit card commitments, operating lease commitments and capital expenditure commitments. Bank acceptances are undertakings by us to pay bills of exchange issued by our customers. We issue letters of guarantee and letters of credit to guarantee the performance of our customers to third parties. The following table sets forth the contractual amounts of our credit commitments and other off-balance sheet items as of the dates indicated:

	As of December 31,			As of June 30,
	2011	**2012**	**2013**	**2014**
	(in millions of RMB)			
Bank acceptances	27,819	39,522	49,746	63,992
Letters of credit	281	857	1,691	3,094
Letters of guarantee	34	359	989	1,171
Subtotal	28,134	40,738	52,426	68,257
Unused credit card commitments	839	1,168	1,634	1,972
Capital commitments	16	90	164	699
Operating lease commitments	330	429	488	509
Total	29,319	42,425	54,712	71,437

Our credit commitments and other off-balance sheet items increased by 44.7% from RMB29,319 million as of December 31, 2011 to RMB42,425 million as of December 31, 2012, by 29.0% to RMB54,712 million as of December 31, 2013, and by 30.6% to RMB71,437 million as of June 30, 2014, primarily due to an increase in bank acceptance bills. During the Track Record Period, the continuous increase in our bank acceptances was primarily because of the continued growth of customer demand due to the continued expansion of our customer base and overall business as well as the convenience and various functions served by bank acceptances, including payment, settlement and financing. We apply the same review and approval procedures as well as post-lending management for bank acceptance business as those for corporate loan business. Furthermore, we also verify the truthfulness of the transactions underlying bank acceptance applications and pay close attention to the cash flow of the applicant. We also require our customers to pay a deposit in respect of bank acceptances and demand collateral, pledges and/or guarantees to fully cover our exposure. See "Risk Management – Credit Risk Management – Credit Risk Management for Corporate Banking – Risk Management for Bank Acceptance Business".

As of December 31, 2011, the total deposit paid by our customers to secure bank acceptances was RMB15,688 million, representing 56.4% of our total bank acceptances. Of the balance of the bank acceptances not secured by deposits, 7.4% was secured by collateral, 4.5% was secured by pledges and 86.7% was secured by guarantees.

As of December 31, 2012, the total deposit paid by our customers to secure bank acceptances was RMB18,823 million, representing 47.6% of our total bank acceptances. Of the balance of the bank acceptances not secured by deposits, 15.4% was secured by collateral, 8.2% was secured by pledges and 71.0% was secured by guarantees.

As of December 31, 2013, the total deposit paid by our customers to secure bank acceptances was RMB17,470 million, representing 35.1% of our total bank acceptances. Of the balance of the bank acceptances not secured by deposits, 10.0% was secured by collateral, 22.4% was secured by pledges and 65.5% was secured by guarantees.

As of June 30, 2014, the total deposit paid by our customers to secure bank acceptances was RMB24,162 million, representing 37.8% of our total bank acceptances. Of the balance of the bank acceptances not secured by deposits, 12.0% was secured by collateral, 21.3% was secured by pledges and 64.5% was secured by guarantees.

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 for the period indicated:

	Six months ended June 30, 2014			
	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
	(in millions of RMB)			
On-balance sheet				
Debt securities issued	–	–	3,100	3,100
Off-balance sheet				
Operating lease commitments	93	278	138	509
Capital commitments authorized or contracted for	699	–	–	699
Total	792	278	3,238	4,308

RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into transactions with certain related parties of our Bank, such as taking deposits from, and extension of credit facilities and provision of other banking services to, the relevant related parties. These transactions were conducted on normal commercial terms and in the ordinary course of our business. 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 make such results not reflective of our future performance. See Note 37 to the Accountants' Report attached hereto as Appendix I – "Accountants' Report" 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 and exchange rate risk. We have imposed a set of exposure limits on our investment and trading activities in an effort to manage potential market losses within acceptable limits.

Interest Rate Risk

Our interest rate risk primarily arises from changes in interest rate policy and the mismatch of interest-bearing assets and liabilities. We primarily use sensitivity analysis to assess our exposure to interest rate risk. We manage our interest rate risk principally by adjusting the maturity profile of our assets and liabilities based on our assessment of potential changes in the interest rate environment.

Sensitivity Analysis

We use sensitivity analysis to measure the potential effect of changes in interest rates on our net profit and other comprehensive income. The following table sets forth our interest rate sensitivity analysis based on our assets and liabilities at the same date as of the dates indicated:

	As of December 31,			As of June 30,
	2011	**2012**	**2013**	**2014**
	(in millions of RMB)			
Change in net profit/(loss):				
+ 100 basis points	(14)	(10)	243	117
- 100 basis points	14	10	(243)	(117)
Change in other comprehensive income/(expense):				
+ 100 basis points	(479)	(444)	(178)	(364)
- 100 basis points	516	476	212	400

Based on our assets and liabilities as of June 30, 2014, if interest rates increase (or decrease) by 100 basis points, our net profit for the year following June 30, 2014 would increase (or decrease) by RMB117 million. If interest rates increase by 100 basis points, our other comprehensive income for the year following June 30, 2014 would decrease by RMB364 million. If interest rates decrease by 100 basis points, our other comprehensive income for the year following June 30, 2014 would increase by RMB400 million.

This sensitivity analysis, which is based on a static interest rate risk profile of assets and liabilities, is used for risk management purposes only. The relevant analysis measures only the impact of changes in the interest rates within a year, as reflected by the repricing of our assets and liabilities within a year, on our annualized interest income. The analysis is based on the following assumptions: (i) all assets and liabilities that reprice or are due within three months are treated as repricing or becoming due in 1.5 months and all assets and liabilities that reprice or are due in three months up to one year are treated as repricing or becoming due in 7.5 months, being the middle of the respective periods as shown in the table under "– Sensitivity

Analysis"; (ii) there is a parallel shift in the yield curve and in interest rates; and (iii) there are no other changes to the assets and liabilities. Actual changes in our net interest income resulting from increases or decreases in interest rates may differ from the results of this sensitivity analysis.

Repricing Gap Analysis

The following table sets forth 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 financial assets and liabilities as of the date indicated:

	As of June 30, 2014					
	Within 3 months	3 months up to 12 months	1 year up to 5 years	Over 5 years	Non-interest-bearing	Total
	(in millions of RMB)					
Assets						
Cash and deposits with central bank	67,746	–	–	–	648	68,394
Deposits with banks and other financial institutions	41,260	22,501	30,817	–	–	94,578
Placements with banks and other financial institutions	384	–	–	–	–	384
Financial assets held under resale agreements	7,976	7,374	–	–	–	15,350
Loans and advances to customers	116,506	15,162	12,297	1,558	–	145,523
Financial investments	21,636	45,593	25,234	23,865	276	116,604
Other financial assets	–	–	–	–	8,294	8,294
Total assets	255,508	90,630	68,348	25,423	9,218	449,127
Liabilities						
Deposits and Placements from banks and other financial institutions	(42,730)	(26,665)	(1,138)	–	–	(70,533)
Deposits from customers	(146,199)	(70,347)	(78,622)	(766)	–	(295,934)
Debt securities issued	–	–	–	(3,100)	–	(3,100)
Financial assets sold under repurchase agreements	(43,157)	(2,234)	–	–	–	(45,391)
Other financial liabilities	–	–	–	–	(8,567)	(8,567)
Total liabilities	(232,086)	(99,246)	(79,760)	(3,866)	(8,567)	(423,525)
Repricing gap	23,422	(8,616)	(11,412)	21,557	651	25,602

Foreign Exchange Risk

Our foreign exchange risk primarily arises from foreign currency loans and foreign currency deposits. We manage our foreign exchange risk mainly through (i) setting limits on foreign exchange transactions, (ii) assessing foreign exchange risk quarterly, and (iii) engaging in spot transactions in foreign currencies that match the financial assets and are paired with the liabilities. The following table sets forth our financial assets and liabilities by currency as of the date indicated:

	As of June 30, 2014				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
	(in millions of RMB)				
Assets					
Cash and deposits with central bank.	68,322	48	12	12	68,394
Deposits with banks and other financial institutions	94,203	124	144	107	94,578
Placements with banks and other financial institutions	–	384	–	–	384
Assets held under resale agreements	15,350	–	–	–	15,350
Financial assets at fair value through profit or loss	–	–	–	–	–
Loans and advances to customers	142,083	3,438	–	2	145,523
Financial Investments					
Financial investments classified as loans and receivables	55,680	–	–	–	55,680
Available for sale financial assets	19,404	–	–	–	19,404
Held to maturity investments	41,520	–	–	–	41,520
Investments in associates.	–	–	–	–	–
Other financial assets . . .	8,177	48	1	68	8,294
Total assets.	444,739	4,042	157	189	449,127

	As of June 30, 2014				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
	(in millions of RMB)				
Liabilities					
Deposits from banks and other financial institutions	(68,784)	(32)	–	–	(68,816)
Placements from banks and other financial institutions	–	(1,717)	–	–	(1,717)
Sold under repurchase agreements	(45,391)	–	–	–	(45,391)
Deposits from customers	(293,816)	(1,780)	(156)	(182)	(295,934)
Debt securities issued	(3,100)	–	–	–	(3,100)
Other financial liabilities	(8,117)	(443)	–	(7)	(8,567)
Total liabilities	(419,208)	(3,972)	(156)	(189)	(423,525)
Net position of assets/(liabilities)	25,531	70	1	–	25,602

We use sensitivity analysis to measure the potential effect of changes in foreign exchange rates on our net profit. The following table sets forth, as of the dates indicated, the results of our exchange rate sensitivity analysis based on our assets and liabilities as of the same dates:

	As of December 31,			As of June 30,
	2011	2012	2013	2014
	(in millions of RMB)			
Change in foreign currency exchange rate				
Rise in exchange rate of foreign currency to RMB by 1%	0.02	0.04	0.06	0.09
Decline in exchange rate of foreign currency to RMB by 1%	(0.02)	(0.04)	(0.06)	(0.09)

Certain Information of Financial Assets Designated at Fair Value

The following tables set forth certain information of our financial assets accounted for at fair value:

From January 1, 2014 to June 30, 2014

	Opening amount	Profit or loss on changes in fair value of the period	Accumulation of changes in fair value including in equity	Impairment counted and drew in the period	Ending amount
			(in millions of RMB)		
Financial assets					
Financial assets at fair value through profit and loss	–	–	–	–	–
Financial investment classified as loans and receivables	25,313	–	–	–	55,680
Available-for-sale financial assets	13,070	–	517	–	19,404
Held-to-maturity investments	35,400	–	–	–	41,520
Total	73,783	–	517	–	116,604

From January 1, 2013 to December 31, 2013

	Opening amount	Profit or loss on changes in fair value of the period	Accumulation of changes in fair value including in equity	Impairment counted and drew in the period	Ending amount
			(in millions of RMB)		
Financial assets					
Financial assets at fair value through profit and loss	301	1	–	–	–
Financial investment classified as loans and receivables	15,965	–	–	–	25,313
Available-for-sale financial assets	22,656	–	(372)	–	13,070
Held-to-maturity investments	28,050	–	–	–	35,400
Total	66,972	1	(372)	–	73,783

From January 1, 2012 to December 31, 2012

	Opening amount	Profit or loss on changes in fair value of the period	Accumulation of changes in fair value including in equity	Impairment counted and drew in the period	Ending amount
		(in millions of RMB)			
Financial assets					
Financial assets at fair value through profit and loss	305	(4)	–	–	301
Financial investment classified as loans and receivables	2,139	–	–	–	15,965
Available-for-sale financial assets	18,665	–	(293)	–	22,656
Held-to-maturity investments	28,718	–	–	–	28,050
Total	49,827	(4)	(293)	–	66,972

From January 1, 2011 to December 31, 2011

	Opening amount	Profit or loss on changes in fair value of the period	Accumulation of changes in fair value including in equity	Impairment counted and drew in the period	Ending amount
		(in millions of RMB)			
Financial assets					
Financial assets at fair value through profit and loss	1,027	2	–	–	305
Financial investment classified as loans and receivables	–	–	–	–	2,139
Available-for-sale financial assets	14,681	–	339	–	18,665
Held-to-maturity investments	23,057	–	–	–	28,718
Total	38,765	2	339	–	49,827

CAPITAL EXPENDITURES

Our capital expenditures in 2011, 2012 and 2013 and in the six months ended June 30, 2014 were primarily incurred for purchases of properties and equipment, tangible assets and other long-term assets. For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, our capital expenditures were RMB316 million, RMB230 million, RMB427 million and RMB629 million, respectively, primarily reflecting the capital expenditures associated with the establishment of our business outlets during the respective periods.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

We make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. We applied these estimates and assumptions consistently during the Track Record Period, and we currently do not expect any material change to these estimates or assumptions in the near future. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Impairment losses on loans and advances to customers, available-for-sale financial assets and held-to-maturity investments

The Bank reviews portfolios of loans and advances to customers, available-for-sale financial assets and held-to-maturity investments regularly 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, available-for-sale financial assets and held-to-maturity 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 held-to-maturity investments that are 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 judgment 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 available-for-sale financial assets includes significant or continual decline in fair value of investment. When deciding whether there is significant or continual decline in fair value, the Bank will consider the historical market fluctuation and debtors' credit condition, financial position and performance of related industry.

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. The Bank has established a work flow to ensure that the valuation techniques are constructed by qualified personnel and are validated and reviewed by independent personnel. Valuation techniques are certified and calibrated before implementation to ensure the valuation result reflects the actual market conditions. Valuation models established by the Bank make maximum use of market input and rely as little as possible on the Bank's specific data. Some input, such as credit and counterparty risk, and risk correlations require management's estimates. The Bank reviews the above estimations and assumptions regularly and makes adjustments if necessary.

The classification of the held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments, if the Bank has the intention and ability to hold them until maturity. In evaluating whether requirements to classify a financial asset as held to maturity are met, management makes significant judgments. Failure in correctly assessing the Bank's intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available for sale.

Income taxes

Determining income tax provisions involves judgment on the future tax treatment of certain transactions. The Bank carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered regularly to take into account all changes in tax legislation. Deferred tax assets are recognized for tax losses not yet used and temporary deductible differences. As those 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, management's judgment is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognized, if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

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, impairment loss is provided.

Since the market price of an asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot 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 assumptions.

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 relevant periods. The estimated useful lives are determined based on historical experience 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.

INDEBTEDNESS

As of October 31, 2014 (being the date for the purpose of this indebtedness statement, before this prospectus is printed), we had the following indebtedness:

- Subordinated bonds with an aggregate principal amount of RMB900 million, due on November 4, 2021;

- Tier-2 capital bonds with an aggregate principal amount of RMB2,200 million, due on May 30, 2024;

- deposits and money market takings from customers and other banks and balances under repurchase agreements that arose from the normal course of our banking business; and

- transaction-related contingencies, trade-related contingencies and other commitments that arose from the normal course of our banking business.

Except as disclosed above, we did not have, as of October 31, 2014, any material and outstanding mortgages, charges, debentures, or other loan 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, since October 31, 2014, and up to the date of this prospectus, there has not been any material change in our indebtedness or contingent liabilities.

Other than as disclosed above, we do not expect to raise material external debt financing in the near future based on our current business plan.

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 POLICY

In March 2012, we declared cash dividends of RMB370 million in respect of profits for the year ended December 31, 2011 and we have paid such dividend. In May 2014, we declared cash dividends of RMB410 million in respect of profits for the year ended December 31, 2013 and have paid such dividend. The Bank confirms that there shall be no dividend to be declared or paid prior to the Listing. Declared and unpaid dividends, including dividends payable to untraceable shareholders, are treated as a "dividend payable" item under "other liabilities" in our financial statement. 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.

According to the resolution of "Proposed Issuance of H Shares and the Listing on the HKSE by Shengjing Bank Co., Ltd." passed at the second temporary shareholders' general meeting held in April 2014, to the extent that any of the profits accumulated prior to the Global Offering are distributed after the Global Offering, such profits will be distributed to all the then-existing shareholders. In addition, according to the PRC Company Law and the Articles of Association of the Bank, all shareholders have an equal right to receive dividend distributions.

In compliance with the relevant PRC laws and regulations, the requirements of the securities regulatory authorities of the jurisdictions where our Shares are listed and our Articles of Association, as well as taking into account of the interests of our shareholders and the needs of our business development, for the year 2014 and going forward, our Board of Directors will develop an annual dividend distribution plan for submission to our shareholders' general meetings for approval. Pursuant to our Articles of Association, our dividend policy should be based on the principle of providing the investors with reasonable investment return and benefiting the long-term development of our Bank. We may pay dividends by way of distributing new Shares or making cash payments to shareholders. We will determine whether to distribute any dividends, and in what amount, based on factors, including our results of operations, capital adequacy ratios, cash flow, financial condition, status of business operations and future prospects, our shareholders' interests, statutory and regulatory restrictions on our dividend distribution.

Our Board of Directors is responsible for formulating profit distribution proposals. A profit distribution proposal should be determined by two thirds or more of our Directors. The independent Directors should express their opinions on the profit distribution proposals to the Board of Directors. The Board of Supervisors should review and express its opinions on the compliance and appropriateness of the profit distribution proposals.

Under the PRC laws, we may only pay dividends out of our profit after tax. Such profit after tax is our net profit determined under the PRC GAAP or the IFRS or the applicable accounting standards of the overseas jurisdiction where our Shares are listed, whichever is the lowest, less:

- our accumulated loss;
- appropriations we are required to make to the statutory surplus reserve, which is currently 10% of our profit after tax determined under the PRC GAAP;
- a general reserve we are required to set aside; and
- appropriations to a discretionary surplus reserve as approved by the shareholders in a general meeting.

Pursuant to the relevant regulations issued by the MOF, financial institutions are required to set aside a general reserve at the end of each year against the risk-bearing assets. Such general reserve should generally be at least 1.5% of the balance of our risk-bearing assets as of the end of each year and is part of our reserve. As of June 30, 2014, we set aside RMB3,546 million as the general reserve, which was in compliance with the requirements of the MOF in respect of appropriation of the general reserve.

Any distributable profit that has not been distributed in a given year is retained and available for distribution in subsequent years. We generally do not distribute dividends in a year in which there is no profit available for distribution. Any dividend payment by us must also be approved at a shareholders' general meeting. Pursuant to the PRC laws and our Articles of Association, the shareholders' general meeting may not distribute profits to our shareholders until we have made up our losses and made appropriations to our statutory surplus reserve, and our shareholders must return any profit distributed to them in violation of the relevant regulations.

The CBRC has the discretionary 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 June 30, 2014, we had a capital adequacy ratio of 11.61%, a Tier 1 capital adequacy ratio of 9.77% and a core Tier 1 capital adequacy ratio of 9.77%, all of which were in compliance with the relevant regulations of the CBRC. See "Supervision and Regulation – Supervision Over Capital Adequacy – Regulatory Requirements in respect of Capital Adequacy Ratios" and "Supervision and Regulation – Principal Regulators – CBRC – Examination and Supervision".

LISTING EXPENSES

We incur listing expenses in connection with the Listing, which include professional fees, underwriting commission and fees. Listing expenses to be borne by our Bank are estimated to be approximately RMB244 million. Listing expenses of approximately RMB14 million had been incurred as of June 30, 2014. Listing expenses of approximately RMB230 million are expected to be incurred after June 30, 2014, of which RMB9 million is expected to be charged to our consolidated statement of profit or loss and other comprehensive income and RMB221 million is expected to be accounted for as a deduction from equity.

The listing expenses above are the latest practicable estimate for reference only and the actual amount may differ from this estimate. Our Directors do not expect such expenses to have a material adverse impact on our financial results for the year ending December 31, 2014.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The unaudited pro forma statement of adjusted net tangible assets below is prepared based on our unaudited consolidated net tangible assets as of June 30, 2014, as shown in the Unaudited Pro Forma Financial Information, the text of which is set forth in Appendix III to this prospectus, adjusted as described below.

The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared to show the effect on our consolidated net tangible assets of the Company attributable to shareholders of the Company as of June 30, 2014, as if the Global Offering had occurred on June 30, 2014. The unaudited pro forma statement of adjusted consolidated net tangible assets of the Company is prepared in accordance with Rule 4.29 of the Listing Rules.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Company 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 June 30, 2014(1)	Estimated net proceeds from the Global Offering(2)/(5)	Pro forma adjusted consolidated net tangible assets (3)	Pro forma adjusted consolidated net tangible assets per share	
	(in millions of RMB)			*RMB(4)*	*HK$(6)*
Based on an offer price of HK$7.43 per share	25,138	7,144	32,282	5.72	7.21
Based on an offer price of HK$7.81 per share	25,138	7,513	32,651	5.78	7.28

Notes:

(1) The consolidated net tangible assets attributable to shareholders of the Bank as of June 30, 2014 is based on the consolidated net assets attributable to shareholders of the Bank of RMB25,175 million less intangible assets of RMB37 million as of June 30, 2014.

(2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK$7.43 (being the minimum offer price) and HK$7.81 per H Share (being the maximum offer price) and the assumption that there are 1,250,000,000 newly issued H Shares in the Global Offering, after deduction of the underwriting fees and other expenses related to the Global Offering (excluding approximately RMB2 million listing expenses which has been charged to profit or loss up to June 30, 2014) and takes no account of any shares which may be issued upon the exercise of the Over-Allotment Option.

(3) The unaudited pro forma adjusted consolidated net tangible assets do not take into account the financial results or other transactions of the Bank subsequent to June 30, 2014.

(4) The unaudited pro forma adjusted consolidated net tangible assets per share is arrived on the basis of 5,646,005,200 shares in issue assuming that the Global Offering has been completed on June 30, 2014 and that the Over-Allotment Option is not exercised.

(5) The estimated net proceeds from the Global Offering are translated into Renminbi at the rate of RMB0.7938 to HK$1.00, the exchange rate set by the PBOC prevailing on June 30, 2014. 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.

(6) The unaudited pro forma adjusted consolidated net tangible assets per share is translated into Hong Kong dollars at an exchange rate of RMB0.7938 to HK$1.00. No representation is made that the Renminbi amounts have been, could have been or could be converted to Hong Kong dollars at that rate or at any other rate.

WORKING CAPITAL

Rule 8.21A(1) and Paragraph 36 of Part A of Appendix 1A of the Hong Kong Listing Rules require this prospectus to include a statement by our Directors that, in their opinion, the working capital available to our Bank is sufficient for at least 12 months from the publication of this prospectus 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 conventional concept of "working capital" does not apply to financial institutions such as us. We are regulated in the PRC by, among others, the PBOC and the CBRC. These regulatory authorities impose minimum capital adequacy and liquidity requirements on commercial banks operating in the PRC. Rule 8.21A(2) of the 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 engaged in the provision of financial services, provided that the Hong Kong Stock Exchange is satisfied that the inclusion of such a statement would not provide significant information for investors and the issuer's solvency and capital adequacy are subject to prudential supervision by another regulatory body. In view of the above, pursuant to Rule 8.21A(2) of the Listing Rules, we are not required to include a working capital statement from the Directors in this prospectus.

RECENT DEVELOPMENTS AND MATERIAL ADVERSE CHANGE

Our business has experienced continued growth since June 30, 2014, the date of the latest audited financial information of our Bank as set forth in the Accountants' Report in Appendix I to this prospectus. Our Directors have confirmed that, since June 30, 2014 and up to the date of this prospectus, there has been no material adverse change in our financial or trading position.

With effect from November 22, 2014, the PBOC lowered the benchmark interest rates on loans and deposits and raised the maximum interest rates for RMB-denominated deposits from 110% to 120% of the PBOC benchmark interest rate. We therefore raised our interest rates on deposits to 120% of the benchmark interest rate. See "Supervision and Regulation – Pricing of Products and Services – Interest Rates for Loans and Deposits" in this prospectus. We will continue to monitor and manage the interest rate risk arising from the recent and future adjustments of PBOC benchmark interest rates on loans and deposits, through optimizing the maturity portfolio of our assets and liabilities, interest rate exposure analysis, duration analysis and other analysis tools to enhance quota management. See "Risk Management – Market Risk Management – Market Risk Management for the Banking Book – Interest Rate Risk Management" in this prospectus.

In addition, we are involved as a third party in an administrative litigation in relation to the trademark 盛京銀行 SHENGJING BANK which is in the application process. The litigation was accepted by the Beijing First Intermediate People's Court on May 26, 2014. The defendant is the Trademark Review and Adjudication Board under the State Administration for Industry, and we are regarded as a third person in the litigation. The administrative litigation was heard on October 13, 2014. On December 8, 2014, the Bank received the judgment rendered by Beijing No. 1 Intermediate People's Court, in which the Objector's claim was dismissed. Please refer to the section entitled "Risk Factors – Risk Relating to Our Business – We have not completed the trademark registration of our important logos in China. If we fail to register the trademark, our right to use the logo in business operations may be affected, and we may face infringement claims brought by third parties and may suffer losses as a result", "Business – Trademark" and "Business – Supervision and Regulation – Legal Proceedings".

FUTURE PLANS

See the section entitled "Business – Our Strategies" of this prospectus for a detailed description of our future plans.

USE OF PROCEEDS

Assuming an Offer Price of HK$7.43, 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$8,986 million, if the Over-Allotment Option is not exercised; or approximately HK$10,348 million, if the Over-Allotment Option is exercised in full. We will not receive any of the proceeds from the sale of the Sale Shares by the Selling Shareholders pursuant to the Global Offering.

Assuming an Offer Price of HK$7.62, being the mid-point of the proposed Offer Price range of HK$7.43 to HK$7.81, 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$9,218 million, if the Over-Allotment Option is not exercised; or to be approximately HK$10,615 million, if the Over-Allotment Option is exercised in full.

Assuming an Offer Price of HK$7.81, 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$9,450 million, if the Over-Allotment Option is not exercised; or to be approximately HK$10,882 million, if the Over-Allotment Option is exercised in full.

We estimate that the net proceeds from the sale of Sale Shares by the Selling Shareholders pursuant to the Global Offering (after deduction of estimated expenses payable by the Selling Shareholders in relation to the Global Offering), to be:

- approximately HK$928.75 million, if the Over-Allotment Option is not exercised, or approximately HK$1,068.06 million, if the Over-Allotment Option is exercised in full, assuming an Offer Price of HK$7.43, being the low-end of the proposed Offer Price range;

- approximately HK$952.50 million, if the Over-Allotment Option is not exercised, or approximately HK$1,095.38 million, if the Over-Allotment Option is exercised in full, assuming an Offer Price of HK$7.62, being the mid-point of the proposed Offer Price range; and

- approximately HK$976.25 million, if the Over-Allotment Option is not exercised, or approximately HK$1,122.69 million, if the Over-Allotment Option is exercised in full, assuming an Offer Price of HK$7.81, being the high-end of the proposed Offer Price range.

We intend to use the net proceeds from the Global Offering (after deduction of underwriting commissions and estimated expenses payable by us in relation to the Global Offering) to strengthen our capital base to support the ongoing growth of our business.

THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements (the "Cornerstone Investment Agreements") with certain investors (the "Cornerstone Investors"), pursuant to which the Cornerstone Investors have agreed to subscribe, either directly or as the ultimate beneficial investor, for such number of Offer Shares (rounded down to the nearest whole board lot of 500 H Shares) that may be purchased for the Hong Kong dollar equivalent of the aggregate amount of approximately US$700 million (calculated at the exchange rates published by Reuters after the close of business as at the Price Determination Date) (the "Cornerstone Placing"). The table below sets forth the total number of Offer Shares that the Cornerstone Investors would subscribe for and the approximate percentage of the Shares in issue immediately following completion of the Global Offering, assuming the Over-Allotment Option is not exercised.

	Assuming an Offer Price of HK$7.43 (being the low end of the Offer Price range set out in this prospectus)		Assuming an Offer Price of HK$7.81 (being the high end of the Offer Price range stated in this prospectus)	
Name of Cornerstone Investor	**Total number of Offer Shares subscribed(1)**	**Approximate percentage of the Shares in issue immediately following completion of the Global Offering(2)**	**Total number of Offer Shares subscribed(1)**	**Approximate percentage of the Shares in issue immediately following completion of the Global Offering(2)**
Bondic International Holdings Limited	208,742,500	3.70%	198,586,000	3.52%
Sheng Hua Financial Stable Growth Investment Fund SP	206,660,000	3.66%	196,605,000	3.48%
Suen, Cho Hung Paul	185,994,000	3.29%	176,944,500	3.13%
Chow Tai Fook Nominee Limited	104,371,000	1.85%	99,293,000	1.76%
Prospect Vantage Holdings Limited	20,666,000	0.37%	19,660,500	0.35%
Total	726,433,500	12.87%	691,089,000	12.24%

Notes:

(1) Rounded down to the nearest whole board lot of 500 H Shares.

(2) Assuming that the Over-Allotment Option is not exercised.

To the knowledge of our Bank, each of the Cornerstone Investors is independent from our Bank, our connected persons and their respective associates and other Cornerstone Investors. 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 our Bank on or around December 24, 2014.

The Cornerstone Placing forms part of the International Offering. The Cornerstone Investors will not subscribe for any Offer Shares under the Global Offering other than pursuant to the Cornerstone Investment Agreements. The Offer Shares to be subscribed for by the Cornerstone Investors will rank pari passu in all respects with the other fully paid H Shares in issue. Immediately following the completion of the Global Offering, the Cornerstone Investors will not have any board representation in the Bank, nor will they become our substantial shareholders (as defined under the Listing Rules). The shareholdings of the Cornerstone Investors will be counted towards the public float of our Shares. The Offer Shares to be subscribed for by the Cornerstone Investors will not be affected by any reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering as described in "Structure of the Global Offering – The Hong Kong Public Offering – Reallocation and Clawback" in this prospectus.

OUR CORNERSTONE INVESTORS

The information about our Cornerstone Investors set forth below has been provided by the Cornerstone Investors in connection with the Cornerstone Placing.

Bondic International Holdings Limited

Bondic International Holdings Limited has agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 500 H Shares) that may be purchased with an aggregate amount of US$200 million (exclusive of a brokerage fee of 1%, a Hong Kong Stock Exchange trading fee of 0.005% and a SFC transaction levy of 0.0027%) at the Offer Price.

Bondic International Holdings Limited is a company incorporated with limited liability in the British Virgin Islands and is wholly and beneficially owned by Mr. Cheung Chung Kiu ("Mr. Cheung"). Mr. Cheung is the founder and chairman of Yugang International Limited (listed on the Hong Kong Stock Exchange, stock code: 613) and chairman of C C Land Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 1224), Y.T. Realty Group Limited (listed on the Hong Kong Stock Exchange, stock code: 75) and The Cross-Harbour (Holdings) Limited (listed on the Hong Kong Stock Exchange, stock code: 32).

Sheng Hua Financial Stable Growth Investment Fund SP

Sheng Hua Financial Stable Growth Investment Fund SP ("Sheng Hua Fund") has agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 500 H Shares) that may be purchased with an aggregate amount of US$200 million (inclusive of a brokerage fee of 1%, a Hong Kong Stock Exchange trading fee of 0.005% and a SFC transaction levy of 0.0027%) at the Offer Price. In addition, the H Shares to be placed to Sheng Hua Fund will be held on behalf of independent third parties.

Sheng Hua Fund is a sub-fund of Global High Growth Industries Fund Series SPC. Global High Growth Industries Fund Series SPC is incorporated, and registered as a mutual fund in the Cayman Islands on February 13, 2014 and on March 3, 2014, respectively. Sheng Yuan Asset Management Limited ("Sheng Yuan Asset Management") is the investment manager of Sheng Hua Fund. Sheng Yuan Asset Management is a licensed corporation to conduct type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO, and is a wholly-owned subsidiary of Sheng Yuan Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 851). Sheng Yuan Asset Management acts as the investment manager or adviser of several funds. Sheng Yuan Asset Management and Sheng Yuan Securities Limited are affiliated companies within the same group. As such, Sheng Hua Fund is a connected client of the lead broker or distributors pursuant to paragraph 5(1) of Appendix 6 of the Listing Rules. We have applied for and the Hong Kong Stock Exchange has granted its consent under paragraph 5(1) of Appendix 6 of the Listing Rules to allow Offer Shares to be placed to the Sheng Hua Fund as a "connected client" (as defined under paragraph 13 of Appendix 6 of the Listing Rules) of Sheng Yuan Securities Limited.

Mr. Suen, Cho Hung Paul

Mr. Suen, Cho Hung Paul ("Mr. Suen") has agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 500 H Shares) that may be purchased with an aggregate amount of US$180 million (inclusive of a brokerage fee of 1%, a Hong Kong Stock Exchange trading fee of 0.005% and a SFC transaction levy of 0.0027%) at the Offer Price.

Mr. Suen, aged 53, holds a master's degree in business administration from the University of South Australia. Mr. Suen has extensive experience in managing business ventures involving metal, minerals and raw materials, electrical and electronic consumer products, energy and property as well as in strategic planning and corporate management of business enterprises in Hong Kong and the PRC.

Mr. Suen is a substantial shareholder, executive director and the chairman of Mission Capital Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 1141), a controlling shareholder of China Tycoon Beverage Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 209), a controlling shareholder and a non-executive director of BEP International Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 2326).

Chow Tai Fook Nominee Limited

Chow Tai Fook Nominee Limited has agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 500 H Shares) that may be purchased with an aggregate amount of US$100 million (exclusive of a brokerage fee of 1%, a Hong Kong Stock Exchange trading fee of 0.005% and a SFC transaction levy of 0.0027%) at the Offer Price.

Chow Tai Fook Nominee Limited is a company incorporated in Hong Kong, which is wholly-owned and controlled by Dato' Dr. Cheng Yu Tung. Its principal activities include investment holdings.

Prospect Vantage Holdings Limited

Prospect Vantage Holdings Limited has agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 500 H Shares) that may be purchased with an aggregate amount of US$20 million (inclusive of a brokerage fee of 1%, a Hong Kong Stock Exchange trading fee of 0.005% and a SFC transaction levy of 0.0027%) at the Offer Price.

Prospect Vantage Holdings Limited is a limited company incorporated in British Virgin Islands and is an indirectly wholly-owned subsidiary of China Strategic Holdings Limited ("China Strategic"), a company incorporated in Hong Kong with limited liability (listed on the Hong Kong Stock Exchange, stock code: 235). China Strategic and its subsidiaries are engaged in trading of metal and electronic products, money lending business and securities investment.

CONDITIONS PRECEDENT

The subscription obligation of each of the Cornerstone Investors to subscribe for the Offer Shares is conditional upon:

(a) the Hong Kong Underwriting Agreement and the International Underwriting Agreement having been entered into and having become effective and unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in these underwriting agreements;

(b) neither the Hong Kong Underwriting Agreement nor the International Underwriting Agreement having been terminated;

(c) the Listing Committee of the Hong Kong Stock Exchange having granted the listing of, and permission to deal in, the H Shares and that such approval or permission having not been revoked prior to the commencement of dealings in the H Shares on the Hong Kong Stock Exchange;

(d) no law having been enacted or promulgated which prohibit the consummation of the transactions contemplated in the Hong Kong Public Offering, the International Offering or the Cornerstone Investment Agreements and there having been no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions; and

(e) the respective representations, warranties, undertakings and confirmations of the Cornerstone Investors provided in the Cornerstone Investment Agreements being accurate and true in all material respects and that there having been no material breach of the Cornerstone Investment Agreements on the part of the Cornerstone Investors.

RESTRICTIONS ON DISPOSALS BY THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has agreed that without the prior written consent of the Bank and the Joint Bookrunners, it will not, whether directly or indirectly, at any time during the period of six months following the Listing Date, dispose of any of the Shares purchased by such Cornerstone Investor pursuant to the relevant Cornerstone Investment Agreement, and any shares or other securities of the Bank which are derived from such Shares pursuant to any rights issue, capitalization issue or other form of capital reorganization (whether such transactions are to be settled in cash or otherwise) and any interest from such Shares or securities (the "Relevant Shares") or any interest in any company or entity holding any Relevant Shares in any manner, nor will it agree or contract to (or enter into any transaction with the same economic effect), or publicly announce any intention to enter into a transaction with a third party for the disposal of any of the Relevant Shares, other than transfers to any wholly-owned subsidiary of such Cornerstone Investor, provided that, among other things, such wholly-owned subsidiary gives a written undertaking agreeing to, and such Cornerstone Investor gives a written undertaking agreeing to procure that such wholly-owned subsidiary shall, be bound by the Cornerstone Investor's obligations under the relevant Cornerstone Investment Agreement.

HONG KONG UNDERWRITERS

Hong Kong Underwriters

China Merchants Securities (HK) Co., Limited

UOB Kay Hian (Hong Kong) Limited
CCB International Capital Limited
Sheng Yuan Securities Limited
Haitong International Securities Company Limited
Convoy Investment Services Limited
RHB OSK Securities Hong Kong Limited
Phillip Securities (Hong Kong) Limited
Quam Securities Company Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering initially 68,750,000 Hong Kong Offer Shares (subject to adjustment) for subscription by way of the Hong Kong Public Offering at the Offer Price 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 listing of, and permission to deal in, the H Shares to be issued and sold pursuant to the Global Offering (including any additional Shares which may be issued and sold pursuant to the exercise of the Over-Allotment Option) as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally agreed to subscribe or procure subscriptions for their respective applicable proportions of the Hong Kong Offer Shares now being offered, but which are not taken up, under the Hong Kong Public Offering on and subject to the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional.

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:

(a) there develops, occurs, exists or comes into force:

  (i) any new law or regulation or any change or development involving a prospective change in existing law or regulation, or any change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the PRC, the United States, the United Kingdom, any member of the European Union, Japan or Singapore (each a "Relevant Jurisdiction");

(ii) any change or development involving a prospective change or development, or any event or series of events resulting in or representing a change or development, or prospective change or development, in local, national, regional or international financial, political, military, industrial, economic, currency market, fiscal or regulatory or market conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Hong Kong dollars or an appreciation of the Renminbi against any foreign currencies) in or affecting any Relevant Jurisdiction;

(iii) any event or series of events in the nature of force majeure (such as acts of government, strikes, lock-outs, riots, public disorder (whether or not as a result of civil disobedience campaigns such as Occupy Central (佔領中環) in Hong Kong), economic sanction, fire, explosion, flooding, civil commotion, acts of war, acts of terrorism (whether or not responsibility has been claimed), acts of God, large scale outbreak of diseases or epidemics, including, but not limited to, Severe Acute Respiratory Syndrome and H1N1 or such related/mutated forms of accident or interruption or delay in transportation) in or affecting any Relevant Jurisdiction;

(iv) (A) any suspension or limitation on trading in shares or securities generally on the Hong Kong Stock Exchange, the New York Stock Exchange, the Nasdaq National Market, the London Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or the Tokyo Stock Exchange; or

(B) a general moratorium on commercial banking activities in any Relevant Jurisdiction declared by the relevant authorities, or a material disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any Relevant Jurisdiction;

(v) any change or prospective change in taxation or exchange controls, currency exchange rates or foreign investment regulations in any Relevant Jurisdiction adversely affecting an investment in the H Shares;

(vi) any change or prospective change, or a materialisation of, any of the risks set out in the section headed "Risk Factors" in this prospectus;

(vii) a petition is presented for the winding-up or liquidation of our Bank or our Bank makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of our Bank or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of our Bank or anything analogous thereto occurs in respect of our Bank;

(viii) any litigation or claim being threatened or instigated against our Bank,

and which, in any such case and in the sole opinion of the Joint Global Coordinators (for themselves and on behalf of the other Hong Kong Underwriters):

(A) is or will be or is reasonably expected to be materially adverse to, or materially and prejudicially affect, the business or financial or trading position or prospects of our Bank;

(B) has or will have or is reasonably expected to have a material adverse effect on the success of the Global Offering or the level of Offer Shares being applied for or accepted or the distribution of Offer Shares and/or make it impracticable, inexpedient or inadvisable for any part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged;

(C) makes or will make or is reasonably expected to make it impracticable, inexpedient or inadvisable 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;

(b) there has come to the notice of the Joint Global Coordinators or any of the Hong Kong Underwriters:

(i) that any statement contained in this prospectus, the Application Forms, the formal notice and any announcements in the agreed form issued by our Bank in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, has or is likely to become untrue, inaccurate, incorrect or misleading in any material respect;

(ii) any matter has arisen or has been discovered which would or might, 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;

(iii) any of the representations, warranties and undertakings given by our Bank in the Hong Kong Underwriting Agreement is (or might when repeated be) untrue, inaccurate, incorrect or misleading in any respect;

(iv) any event, act or omission which gives or may give rise to any liability of our Bank pursuant to the indemnities given by our Bank under the Hong Kong Underwriting Agreement;

(v) any material breach of any of the obligations of our Bank under the Hong Kong Underwriting Agreement; or

(vi) any material adverse change, or any development involving a prospective material adverse change, in or affecting the assets, liabilities, business, management, prospects, shareholders' equity, results of operations or position or condition (financial or otherwise) of our Bank, taken as a whole,

then the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) may, in its sole discretion and upon giving written notice to our Bank, terminate the Hong Kong Underwriting Agreement with immediate effect.

Undertakings to the Hong Kong Stock Exchange pursuant to the Listing Rules

Undertakings by Our Bank

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Hong Kong Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or our securities will be completed within six months from the commencement of dealings), except pursuant to the Global Offering (including the Over-Allotment Option) or in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

Undertakings pursuant to the Hong Kong Underwriting Agreement

Undertakings by Our Bank

Except pursuant to the Global Offering (including pursuant to the Over-Allotment Option), at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling six months from the Listing Date, the Company will not without the Joint Global Coordinators' prior written consent (subject to the exceptions set out in the Listing Rules):

(i) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, make any short sale, lend, mortgage, assign or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally or repurchase, any of its share capital or any securities or any interest therein (including but not limited to any interest convertible into or exercisable or exchangeable for or that represent the right to receive such share capital or securities or any interest therein);

(ii) enter into any swap, derivative, lending, repurchase and mortgage or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or securities;

(iii) enter into any transaction with the same economic effect as any transaction described in sub-paragraph (i) or (ii) above; or

(iv) agree or contract to, or publicly announce any intention to enter into, any transaction described in sub-paragraph (i), (ii) or (iii) above,

whether any of the foregoing transactions described in sub-paragraphs (i) to (iv) is to be settled by delivery of share capital or such other securities, in cash or otherwise or publicly disclose that our Bank will or may enter into any transaction described above, provided that the foregoing restrictions shall not apply to the issue of H Shares by our Bank pursuant to the Global Offering (including pursuant to the Over-Allotment Option) or the issue of warrants of our Bank by the Sole Sponsor or the Joint Global Coordinators.

Indemnity

We have agreed to indemnify the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners and the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

Commissions and Expenses

The Hong Kong Underwriters will receive an underwriting commission of 1.5% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Underwriters and not the Hong Kong Underwriters.

The aggregate commissions and fees (including a discretionary incentive fee), together with the listing fees, SFC transaction levy, the Hong Kong Stock Exchange trading fee, legal and other professional fees, and printing and other expenses payable by us relating to the Global Offering are estimated to amount to approximately HK$306.89 million in total (based on the mid-point of our indicative price range of the Global Offering and assuming the Over-Allotment Option is not exercised). The Selling Shareholders will pay the SFC transaction levy and the Hong Kong Stock Exchange trading fees in respect of the Sale Shares.

Hong Kong Underwriters' Interests in our Bank

Save as disclosed in this prospectus and save for its obligations under the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding interests in our Bank or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Bank.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement and/or the International Underwriting Agreement.

International Offering

International Underwriting Agreement

In connection with the International Offering, it is expected that we and the Selling Shareholders will enter into the International Underwriting Agreement with the International Underwriters and the Joint Global Coordinators. Under the International Underwriting Agreement, the International Underwriters, subject to certain conditions set out therein, will severally agree to procure subscribers or purchasers for the International Offer Shares, failing which they agree to subscribe for or purchase their respective portions of the International Offer Shares which are not taken up under the International Offering.

We and the Selling Shareholders expect to grant the Over-Allotment Option to the International Underwriters, exercisable by the Joint Global Coordinators on behalf of the International Underwriters, until 30 days after the last day for the lodging of Application Forms under the Hong Kong Public Offering, to require us to issue and allot and the Selling Shareholders to sell up to an aggregate of 206,250,000 Shares, representing in aggregate 15% of the Offer Shares initially available under the Global Offering at the Offer Price to cover over-allocations, if any, in the International Offering.

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 new securities in the secondary market, during a specified period of time, to retard and, if possible, prevent any decline in the market price of the securities below the Offer Price. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited and the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilizing Manager, its affiliates or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the last day for the lodging of applications under the Hong Kong Public Offering. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing activity, which, if commenced, will be done at the absolute discretion of the Stabilizing Manager and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of Shares that may be over-allocated will not exceed the number of Shares that may be issued and/or sold under the Over-Allotment Option, namely 206,250,000 Shares, which is 15% of the Offer Shares initially available under the Global Offering.

Stabilizing action will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization, and stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules under the SFO includes: (i) over-allocation for the purpose of preventing or minimizing any reduction in the market price of the Shares; (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-Allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares; (v) selling or agreeing to sell any Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in the Offer Shares should note that:

i. the Stabilizing Manager, or any person acting for it, may, in connection with the stabilizing action, maintain a long position in the Shares;

ii. there is no certainty regarding the extent to which and the time period for which the Stabilizing Manager, or any person acting for it, will maintain such a position;

iii. liquidation of any such long position by the Stabilizing Manager may have an adverse impact on the market price of the Shares;

iv. no stabilizing action can be taken to support the price of the Shares for longer than the stabilizing period, which will begin on the Listing Date following the announcement of the Offer Price and is expected to expire on the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;

v. the price of the Shares cannot be assured to stay at or above the Offer Price either during or after the stabilizing period by the taking of any stabilizing action; and

vi. stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

Our Bank will procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

In connection with the Global Offering, the Stabilizing Manager may over-allocate up to and not more than an aggregate of 206,250,000 Shares and cover such over-allocations by (amongst other methods) exercising the Over-Allotment Option, making purchases in the secondary market at prices that do not exceed the Offer Price or by any combination of these means.

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering consists of (subject to adjustment and the Over-Allotment Option):

(i) the Hong Kong Public Offering of 68,750,000 Offer Shares (subject to adjustment as mentioned below) in Hong Kong as described in "The Hong Kong Public Offering" below; and

(ii) the International Offering of 1,306,250,000 Offer Shares (subject to adjustment as mentioned below) by us and the Selling Shareholders in the United States with QIBs in reliance on Rule 144A or another available exemption from the registration requirements of the US Securities Act, and outside the United States in reliance on Regulation S.

The Offer Shares will represent approximately 24.35% of the enlarged issued share capital of our 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 27.11% of the enlarged issued share capital immediately after completion of the Global Offering and the exercise of the Over-Allotment Option as set out in the section entitled "– The International Offering – Over-Allotment Option" below.

Investors may apply for the Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the International Offer Shares under the International Offering, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of the International Offer Shares to QIBs in the United States in reliance on Rule 144A or another available exemption from the registration requirements of the US Securities Act, as well as to institutional and professional investors and other investors expected to have a sizeable demand for the International Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Underwriters are soliciting from prospective investors' indications of interest in acquiring the International Offer Shares. Prospective investors will be required to specify the number of International Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price.

The number of Hong Kong Offer Shares and International Offer Shares to be offered under the Hong Kong Public Offering and the International Offering respectively may be subject to reallocation as described in the sub-section entitled "– The Hong Kong Public Offering – Reallocation and Clawback" below.

THE HONG KONG PUBLIC OFFERING

Number of Shares Initially Offered

Our Bank is initially offering 68,750,000 Offer Shares at the Offer Price under the Hong Kong Public Offering, representing 5.0% of the 1,375,000,000 Offer Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the number of Offer Shares initially offered under the Hong Kong Public Offering will represent 1.22% of our total issued share capital immediately after completion of the Global Offering, assuming that the Over-Allotment Option is not exercised.

In Hong Kong, individual retail investors are expected to apply for the Hong Kong Offer Shares through the Hong Kong Public Offering and individual retail investors, including individual investors in Hong Kong applying through banks and other institutions, seeking International Offer Shares will not be allotted International Offer Shares in the International Offering.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for the Hong Kong Offer Shares.

Allocation

For allocation purposes only, the 68,750,000 Offer Shares initially being offered for subscription under the Hong Kong Public Offering (after taking into account any adjustment in the number of Offer Shares allocated between the Hong Kong Public Offering and the International Offering) will be divided equally into two pools (subject to adjustment at odd lot size): Pool A and Pool B, both of which are available on an equitable basis to successful applicants. All valid applications that have been received for the Hong Kong Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee) of HK$5 million or below will fall into Pool A and all valid applications that have been received for the Hong Kong Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee) of over HK$5 million and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If the Hong Kong Offer Shares in one pool (but not both pools) are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of the Hong Kong Offer Shares from either Pool A or Pool B but not from both pools and can only apply for Hong Kong Offer Shares in either Pool A or Pool B. When there is over-subscription, allocation of the Hong Kong Offer Shares to investors under the Hong Kong

Public Offering, both in relation to Pool A and Pool B, will be based 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 of Hong Kong Offer Shares 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 and Clawback

Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place, which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if certain prescribed total demand levels are reached. An application has been made for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Paragraph 4.2 of Practice Note 18 of the Listing Rules such that the allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to the following adjustments:

- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 103,125,000 Offer Shares, representing 7.5% of the Offer Shares initially available under the Global Offering;

- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 137,500,000 Offer Shares, representing 10.0% of the Offer Shares initially available under the Global Offering; and

- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 275,000,000 Offer Shares, representing 20.0% of the Offer Shares initially available under the Global Offering.

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators. If either the Hong Kong Public Offering or the International Offering is not fully subscribed for, the Joint Global Coordinators has the authority to reallocate all or any unsubscribed Offer Shares from such offering to the other, in such proportion as the Joint Global Coordinators deems appropriate.

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 it has been or will be placed or allocated Offer Shares under the International Offering.

Multiple or suspected multiple applications and any application for more than 50% of the 68,750,000 Offer Shares initially comprised in the Hong Kong Public Offering (that is 34,375,000 Hong Kong Offer Shares) are liable to be rejected.

The listing of the Offer Shares on the Hong Kong Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK$7.81 per Offer Share in addition to any brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the section entitled "– Pricing of the Global Offering" below, is less than the maximum price of HK$7.81 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section entitled "How to Apply for Hong Kong Offer Shares."

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

Number of International Offer Shares Offered

The number of International Offer Shares to be initially offered by us for subscription and offered by the Selling Shareholders for sale under the International Offering will consist of an initial offering of 1,306,250,000 Offer Shares, representing 95% of the Offer Shares under the Global Offering. Subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the International Offer Shares will represent approximately 23.14% of our enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-Allotment Option is not exercised.

Allocation

Pursuant to the International Offering, the International Underwriters will conditionally place the International Offer Shares with QIBs in the United States in reliance on Rule 144A or another available exemption from the registration requirements under the US Securities Act, as well as with institutional and professional investors and other investors expected to have a sizeable demand for the Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Offering is subject to the Hong Kong Public Offering being unconditional.

Allocation of the International Offer Shares pursuant to the International Offering will be determined by the Joint Global Coordinators and will be based on a number of factors including the level and timing of demand, 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, and/or hold or sell Offer Shares after the Listing. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of our Offer Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our shareholders as a whole.

Reallocation

The total number of International Offer Shares to be transferred pursuant to the International Offering may change as a result of the clawback arrangement described in the sub-section entitled "– The Hong Kong Public Offering – Reallocation and Clawback", exercise of the Over-Allotment Option in whole or in part and/or reallocation of all or any unsubscribed Hong Kong Offer Shares to the International Offering.

Over-Allotment Option

In connection with the Global Offering, our Bank and the Selling Shareholders are expected to grant an Over-Allotment Option to the International Underwriters, exercisable by the Joint Global Coordinators at their sole and absolute discretion for themselves and on behalf of the International Underwriters for up to 30 days after the last day for lodging applications under the Hong Kong Public Offering. Pursuant to the Over-Allotment Option, the Joint Global Coordinators will have the right to require our Bank to issue and allot and the Selling Shareholders to sell up to an aggregate of 206,250,000 Offer Shares representing in aggregate approximately 15% of the initial number of the Offer Shares at the Offer Price to cover, among other things, over-allocations in the International Offering, if any. An announcement will be made in the event that the Over-Allotment Option is exercised. The Joint Global Coordinators may also cover any over-allocations by purchasing Shares in the secondary market or by a combination of purchases in the secondary market and a partial exercise of the Over-Allotment Option. Any such secondary market purchase will be made in compliance with all applicable laws, rules and regulations.

THE SELLING SHAREHOLDERS

The Selling Shareholders are initially offering a total of 125,000,000 Sale Shares as part of the Global Offering. The Selling Shareholders may sell up to an aggregate of additional 18,750,000 Sale Shares if the Over-Allotment Option is exercised in full.

Pursuant to a letter issued by the NSSF (Shebaojijinfa [2014] No. 169) on November 13, 2014, the NSSF instructed us to (i) arrange for the sale of the Sale Shares, which shall equal to 10% of the number of the Offer Shares to be offered by our Bank, and (ii) remit the proceeds from the sale of the Sale Shares (after deducting the SFC transaction levy and Hong Kong Stock Exchange trading fee) to an account designated by the NSSF.

PRICING OF THE GLOBAL OFFERING

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us on behalf of ourselves and the Selling Shareholders on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, December 19, 2014 and, in any event, not later than Wednesday, December 24, 2014. The Offer Price will be not more than HK$7.81 and is currently expected not to be less than HK$7.43, unless otherwise announced as further explained below, and 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.**

If, for any reason, the Offer Price is not agreed by Wednesday, December 24, 2014 between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us on behalf of ourselves and the Selling Shareholders, the Global Offering will not proceed and will lapse.

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Joint Global Coordinators (on behalf of the Underwriters) considers it appropriate, the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of Thursday, December 18, 2014, 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), on the Hong Kong Stock Exchange's website at **www.hkexnews.hk**, and on our Bank's website at **www.shengjingbank.com.cn**, notice of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range. Such notice 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 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 being offered under the Global Offering and/or the indicative Offer Price range is so reduced, applicants who have already submitted an application may or may not (depending on the information contained in the announcement) be notified that they are required to confirm their applications. All applicants who have already submitted an application need to confirm their applications in accordance with the procedures set out in the announcement and all unconfirmed applications will not be valid. In the absence of any notice being published of a reduction in the number of Offer Shares being offered under the Global Offering stated in this prospectus and the Application Forms, respectively, on or before the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, once agreed upon, will under no circumstances be higher than the maximum Offer Price as stated in the Application Forms.

The Hong Kong Offer Shares and the International Offer Shares may, in certain circumstances, be reallocated as between the Hong Kong Public Offering and International Offering at the discretion of the Joint Global Coordinators.

The applicable Offer Price, level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Offering, the results of applications and basis of allotment of the Hong Kong Offer Shares are expected to be announced on Wednesday, December 24, 2014 through a variety of channels as described in "How to Apply for Hong Kong Offer Shares – 11. Publication of Results".

UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us (on behalf of ourselves and the Selling Shareholders) on the Price Determination Date.

We expect that our Bank and the Selling Shareholders will, on or about Friday, December 19, 2014, shortly after determination of the Offer Price, enter into the International Underwriting Agreement relating to the International Offering. Underwriting arrangements, the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarized in the section entitled "Underwriting".

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Monday, December 29, 2014, it is expected that dealings in Shares on the Hong Kong Stock Exchange will commence on Monday, December 29, 2014. Our Shares will be traded in board lots of 500 Shares each.

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for the Hong Kong Offer Shares pursuant to the Hong Kong Public Offering will be conditional on, inter alia:

- the Listing Committee of the Hong Kong Stock Exchange granting the listing of, and permission to deal in, the Offer Shares to be issued and sold pursuant to the Global Offering (including any Offer Shares which may be issued and sold pursuant to the exercise of the Over-Allotment Option) and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Offer Shares on the Hong Kong Stock Exchange;

- our Bank having submitted to the HKSCC all requisite documents to enable the Offer Shares to be admitted to trade on the Hong Kong Stock Exchange;

- the Offer Price having been duly determined and the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and

- the obligations of the Underwriters under the respective Underwriting Agreements becoming and remaining unconditional (unless and to the extent such conditions are validly waived on or before such dates and times) 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) and in any event, not later than the date which is 30 days after the date of this prospectus.

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. We will cause a notice of the lapse of the Hong Kong Public Offering to be published by us in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such event, 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, the application monies will be held in separate bank account(s) with the receiving banker(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, amongst other things, the other becoming unconditional and not having been terminated in accordance with its terms.

Share certificates for the Offer Shares are expected to be issued on Wednesday, December 24, 2014 but will only become valid certificates of title at 8:00 a.m. on the date of commencement of the dealings in our Offer Shares, which is expected to be on Monday, December 29, 2014, provided that (i) the Global Offering has become unconditional in all respects and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Offer 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.

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.

Our Bank, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong 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); 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 Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of the **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of any H Shares in our Bank and/or any of our subsidiaries;
- a Director or chief executive officer of our Bank and/or any of our subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of our Bank or will become a connected person of our 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 Monday, December 15, 2014 until 12:00 noon on Thursday, December 18, 2014 from:

(i) the office of the Hong Kong Underwriters:

China Merchants Securities (HK) Co., Limited
48/F, One Exchange Square, 8 Connaught Place, Central, Hong Kong

UOB Kay Hian (Hong Kong) Limited
15/F, China Building, 29 Queen's Road Central, Central, Hong Kong

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

Sheng Yuan Securities Limited
Suite 4303-05, 43/F, Tower 1, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong

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

Convoy Investment Services Limited
Room C, 24/F, @CONVOY, 169 Electric Road, North Point, Hong Kong

RHB OSK Securities Hong Kong Limited
12th Floor, World-Wide House, 19 Des Voeux Road Central, Hong Kong

Phillip Securities (Hong Kong) Limited
11-12/F United Centre, 95 Queensway, Hong Kong

Quam Securities Company Limited
18/F-19/F, China Building, 29 Queen's Road Central, Hong Kong

(ii) any of the following branches of the receiving banks:

(i) Bank of China (Hong Kong) Limited

District	Branch Name	Address
Hong Kong Island:	Bank of China Tower Branch	3/F, 1 Garden Road, Central
	Shek Tong Tsui Branch	534 Queen's Road West, Shek Tong Tsui
Kowloon:	Prince Edward Branch	774 Nathan Road
	Tseung Kwan O Plaza Branch	Shop 112-125, Level 1, Tseung Kwan O Plaza, Tseung Kwan O
	Kwai Chung Plaza Branch	A18-20, G/F Kwai Chung Plaza, 7-11 Kwai Foo Road, Kwai Chung
New Territories:	Yuen Long (Hang Fat Mansion) Branch	8-18 Castle Peak Road, Yuen Long

(ii) Bank of Communications Co., Ltd. Hong Kong Branch

District	Branch Name	Address
Hong Kong Island:	Central District Sub-Branch	G/F., Far East Consortium Building, 125A Des Voeux Road C., Central
	Wanchai Sub-Branch	G/F., 32-34 Johnston Road
Kowloon:	Cheung Sha Wan Plaza Sub-Branch	Unit G04, Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road
New Territories:	Tuen Mun Sub-Branch	G/F., Lin Won Building, 2-4 Yan Ching Street, Tuen Mun
	Tai Po Sub-Branch	Shop No.1, G/F., Wing Fai Plaza, 29-35 Ting Kok Road, Tai Po

(iii) Standard Chartered Bank (Hong Kong) Limited

District	Branch Name	Address
Hong Kong Island:	88 Des Voeux Road Branch	88 Des Voeux Road Central, Central
	Quarry Bay Branch	G/F, Westlands Gardens, 1027 King's Road, Quarry Bay
Kowloon:	Kwun Tong Hoi Yuen Road Branch	G/F, Fook Cheong Building, No. 63 Hoi Yuen Road, Kwun Tong
	Mei Foo Stage I Branch	G/F, 1C Broadway, Mei Foo Sun Chuen Stage I, Lai Chi Kok
New Territories:	Tsuen Wan Branch	Shop C, G/F & 1/F, Jade Plaza, 298 Sha Tsui Road, Tsuen Wan
	Shatin Plaza Branch	Shop No. 8, Shatin Plaza, 21-27 Shatin Centre Street, Shatin

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, December 15, 2014 until 12:00 noon on Thursday, December 18, 2014 from the Depository Counter of HKSCC at 1/F, One and 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 – Shengjing Bank Public Offer for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

- Monday, December 15, 2014 – 9:00 a.m. to 5:00 p.m.
- Tuesday, December 16, 2014 – 9:00 a.m. to 5:00 p.m.
- Wednesday, December 17, 2014 – 9:00 a.m. to 5:00 p.m.
- Thursday, December 18, 2014 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, December 18, 2014, the last application day or such later time as described in "Effect of Bad Weather on the Opening of the Applications 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 our Bank and/or the Joint Global Coordinators (or their agents or nominees), as agents of our 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, the Special Regulations 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 our Bank, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering nor participated in the International Offering;

(viii) agree to disclose to our Bank, our H Share Registrar, receiving banks, the Joint Global Coordinators, the Underwriters and/or their respective advisers and agents, any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Bank, the Joint Global Coordinators and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

(x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xi) agree that your application will be governed by the laws of Hong Kong;

(xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the US 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 our Bank to place your name(s) or the name of the HKSCC Nominees, on our Bank's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our 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 have chosen 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 our Bank and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

(xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC; and (ii) you have due authority to sign the Application Form or give electronic application instructions on behalf of that other person as their agent.

Additional Instructions for Yellow Application Form

You may refer to the **Yellow** Application Form for details.

5. APPLYING THROUGH WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in "Who can apply" section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at **www.eipo.com.hk**.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Bank. If you apply through the designated website, 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

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 Monday, December 15, 2014 until 11:30 a.m. on Thursday, December 18, 2014 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, December 18, 2014 or such later time under the "10. Effect of Bad Weather on the Opening of the Applications Lists" in this section.

No Multiple Applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our 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 the **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK$2 for each "SHENGJING BANK CO., LTD." **White Form eIPO** application submitted via **www.eipo.com.hk** to support the funding of "Source of DongJiang – Hong Kong Forest" project initiated by Friends of the Earth (HK).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give electronic application instructions to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these electronic application instructions through the CCASS Phone System by calling +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 our Bank, the Joint Global Coordinators and our H Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given electronic application instructions to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;

- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;

- (if 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 our Bank, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you, and that you may be prosecuted if you make a false declaration;
- authorise our Bank to place HKSCC Nominees' name on our 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 our Bank, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Bank, our H Share Registrar, receiving banks, the Joint Global Coordinators, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to

be in consideration of our 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 our 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 our Bank, for itself and for the benefit of our shareholder (and so that our Bank will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of our shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies Ordinance, the Companies (Winding up and Miscellaneous Provisions) Ordinance, the PRC Company Law, the Special Regulations and the Articles of Association;

- agree with our Bank, for itself and for the benefit of each shareholder of the Bank and each director, supervisor, manager and other senior officer of the Bank (and so that the Bank will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each shareholder of the Bank and each director, supervisor, manager and other senior officer of the Bank, with each CCASS Participant giving electronic application instructions):

  (a) to refer all differences and claims arising from the Articles of Association of the Bank or any rights or obligations conferred or imposed by the 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 of the Bank;

  (b) that any award made in such arbitration shall be final and conclusive; and

(c) that the arbitration tribunal may conduct hearings in open sessions and publish its award;

- agree with our Bank (for the Bank itself and for the benefit of each shareholder of the Bank) that H shares in the Company 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 of the Bank; 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 our 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 number of 500 Hong Kong Offer Shares. Instructions for more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

Monday, December 15, 2014 – 9:00 a.m. to 8:30 p.m.[1]

Tuesday, December 16, 2014 – 8:00 a.m. to 8:30 p.m.[1]

Wednesday, December 17, 2014 – 8:00 a.m. to 8:30 p.m.[1]

Thursday, December 18, 2014 – 8:00 a.m.[1] to 12:00 noon

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on Monday, December 15, 2014 until 12:00 noon on Thursday, December 18, 2014 (24 hours daily, except on the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon on Thursday, December 18, 2014, 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.

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, our 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 our Bank, the H Share Registrar, the receiving bankers, the Joint Global Coordinators, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service 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 to make your electronic applications. Our Bank, the Directors, the Joint Bookrunners, the Sponsor, the Joint Global Coordinators and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of electronic application instructions, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Center to complete an input request form for electronic application instructions before 12:00 noon on Thursday, December 18, 2014.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or through **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the 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 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 H Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 500 Hong Kong Offer Shares. Each application or electronic application instruction in respect of more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.eipo.com.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Listing Rules), 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 entitled "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, December 18, 2014. Instead, they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Thursday, December 18, 2014 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section entitled "Expected Timetable", an announcement will be made in such event.

11. PUBLICATION OF RESULTS

We expect 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, December 24, 2014 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on our Bank's website at (**www.shengjingbank.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 our Bank's website at (**www.shengjingbank.com**) and the Hong Kong Stock Exchange's website at **www.hkexnews.hk** by no later than 9:00 a.m. on Wednesday, December 24, 2014;
- from the designated results of allocations website at **www.iporesults.com.hk** with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Wednesday, December 24, 2014 to 12:00 midnight on Tuesday, December 30, 2014;
- by telephone enquiry line, by calling +852 2862 8669 between 9:00 a.m. and 10:00 p.m. from Wednesday, December 24, 2014 to Saturday, December 27, 2014; and
- in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, December 24, 2014, Saturday, December 27, 2014 and Monday, December 29, 2014 at all the receiving bank branches and sub-branches.

If we accept 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 entitled "Structure of the Global Offering".

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving electronic application instructions to HKSCC or to **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with us.

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 that are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

(ii) If our Bank or our agents exercise our discretion to reject your application:

Our Bank, the Joint Global Coordinators, 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 our Bank of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying, have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your electronic application instructions through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Bank or the Joint Global Coordinators 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$7.81 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 Wednesday, December 24, 2014.

14. DISPATCH/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 share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the H Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, 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 share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Wednesday, December 24, 2014. 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).

Share certificates will only become valid at 8:00 a.m. on Monday, December 29, 2014 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 shares prior to the receipt of share certificates or the 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 share certificate(s) from our H Share Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, December 24, 2014 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your 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 dispatched 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 share certificate(s) will be sent to the address on the relevant Application Form on or before Wednesday, December 24, 2014, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Wednesday, December 24, 2014, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your 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, December 24, 2014, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- **If you apply through a designated CCASS participant (other than a CCASS investor participant)**

  For Hong Kong 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**

  We 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 us and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, December 24, 2014 or any other date as determined by HKSCC or HKSCC Nominees.

  The eve of Christmas, Wednesday, December 24, 2014 is a non-settlement day. Settlement services under CCASS including Settlement Instructions (as defined under the General Rules of CCASS) and Investor Settlement Instructions (as defined under the General Rules of CCASS) will not be available on that day.

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 share certificate(s) from H Share Registrar 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, December 24, 2014, or such other date as notified by us in the newspapers as the date of dispatch/collection of share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your 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 share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Wednesday, December 24, 2014 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be dispatched 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 Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Wednesday, December 24, 2014, or on any other date determined by HKSCC or HKSCC Nominees.

- We expect to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, we 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, December 24, 2014. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, December 24, 2014 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, December 24, 2014. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer 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, December 24, 2014.

15. ADMISSION OF THE H SHARES INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares and we comply with the stock admission requirements of HKSCC, the 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 Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Bank's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

December 15, 2014

The Directors
Shengjing Bank Co., Ltd.

China Merchants Securities (HK) Co., Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Shengjing Bank Co., Ltd. (the "Bank") and its subsidiaries (hereinafter collectively referred to as the "Group") comprising the consolidated statements of financial position of the Group and the statement of financial position of the Bank as at December 31, 2011, 2012 and 2013 and June 30, 2014 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 of the Group, for each of the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014 (the "Relevant Periods"), together with the explanatory notes thereto (the "Financial Information"), for inclusion in the prospectus of the Bank dated December 15, 2014 (the "Prospectus").

The Bank was formerly known as Shenyang City Cooperative Bank Co., Ltd., a joint-stock commercial bank, which was established on September 10, 1997 with the approval of the People's Bank of China (the "PBOC"). The Bank changed its name to Shenyang Commercial Bank Co., Ltd. and Shengjing Bank Co., Ltd. in June 1998 and February 2007, respectively.

The Group has prepared statutory financial statements in accordance with the "Accounting Standards for Business Enterprises – Basic Standard" issued by the Ministry of Finance (the "MOF") of the People's Republic of China (the "PRC") on February 15, 2006, as well as 38 additional specific accounting standards, the Application Guide and Interpretation of Accounting Standards, and other relevant regulations (collectively known as the "PRC GAAP") (the "PRC Accounting Standard Financial Statements"). The PRC Accounting Standard Financial Statements of the Bank and the Group for each of the years ended December 31, 2011, 2012 and 2013 were audited by Pan-China Certified Public Accountants LLP.

All companies comprising the Group have adopted December 31, as their financial year end date. Details of the Bank's subsidiaries and the names of the respective auditors are set out in Note 21 of Section C. The statutory financial statements of the Bank's subsidiaries were prepared in accordance with the PRC GAAP.

The directors of the Bank have also prepared the consolidated financial statements of the Group for the Relevant Periods (the "Underlying Financial Statements") in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"). The Underlying Financial Statements for each of the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014 were audited by KPMG Huazhen (Special General Partnership) in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Financial Information has been prepared by the directors of the Bank for inclusion in the Prospectus in connection with the listing of shares of the Bank on the Main Board of The Stock Exchange of Hong Kong Limited based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Bank are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with IFRSs issued by the IASB and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Bank determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of the Bank, its subsidiaries or the Group in respect of any period subsequent to June 30, 2014.

OPINION

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group and the Bank as at December 31, 2011, 2012 and 2013 and June 30, 2014 and the Group's consolidated results and cash flows for the Relevant Periods then ended.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Group comprising 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 the six months ended June 30, 2013, together with the notes thereon (the "Corresponding Financial Information"), for which the directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

The directors of the Bank are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

I Consolidated statements of profit or loss and other comprehensive income

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Years ended December 31,			Six months ended June 30,	
		2011	2012	2013	2013	2014
					(unaudited)	
Interest income		10,176,750	13,835,459	18,038,013	8,310,617	11,876,123
Interest expense		(4,832,439)	(7,050,533)	(10,193,830)	(4,677,886)	(7,256,467)
Net interest income	3	5,344,311	6,784,926	7,844,183	3,632,731	4,619,656
Fee and commission income		105,162	156,460	827,759	305,676	746,227
Fee and commission expense		(40,083)	(44,214)	(57,618)	(24,922)	(39,826)
Net fee and commission income	4	65,079	112,246	770,141	280,754	706,401
Net trading (losses)/gains	5	(29,508)	2,629	(2,000)	1,136	5,610
Net (losses)/gains arising from investments	6	(11,171)	(32,340)	208,213	92,867	(111,570)
Other operating income	7	44,599	40,830	85,257	11,205	19,415
Operating income		5,413,310	6,908,291	8,905,794	4,018,693	5,239,512
Operating expenses	8	(1,726,605)	(2,017,380)	(2,445,727)	(1,144,561)	(1,590,634)
Impairment losses on assets	11	(445,643)	(431,714)	(171,860)	(142,864)	(369,092)
Operating profit		3,241,062	4,459,197	6,288,207	2,731,268	3,279,786
Share of profits of associates	22	34,411	23,795	19,719	22,176	2,338
Profit before taxation		3,275,473	4,482,992	6,307,926	2,753,444	3,282,124
Income tax expense	12	(663,147)	(973,653)	(1,419,125)	(591,658)	(776,500)
Profit for the year/period		2,612,326	3,509,339	4,888,801	2,161,786	2,505,624
Net profit attributable to:						
Equity shareholders of the Bank		2,612,326	3,496,626	4,865,531	2,151,282	2,493,564
Non-controlling interests		–	12,713	23,270	10,504	12,060
		2,612,326	3,509,339	4,888,801	2,161,786	2,505,624
Net profit		2,612,326	3,509,339	4,888,801	2,161,786	2,505,624
Other comprehensive income:						
Items that will not be reclassified to profit or loss						
– Remeasurement of net defined benefit liability		(974)	1,014	2,790	(1,030)	(1,837)
Items that may be reclassified subsequently to profit or loss						
– Available-for-sale financial assets: net movement in the investment revaluation reserve	34(4)	254,526	(219,653)	(278,977)	8,651	387,339
Other comprehensive income net of tax		253,552	(218,639)	(276,187)	7,621	385,502
Total comprehensive income		2,865,878	3,290,700	4,612,614	2,169,407	2,891,126
Total comprehensive income attributable to:						
Equity shareholders of the Bank		2,865,878	3,277,987	4,589,344	2,158,903	2,879,066
Non-controlling interests		–	12,713	23,270	10,504	12,060
		2,865,878	3,290,700	4,612,614	2,169,407	2,891,126
Basic and diluted earnings per share (in RMB)	13	0.77	0.95	1.31	0.58	0.59

II Consolidated statements of financial position

(Expressed in thousands of Renminbi, unless otherwise stated)

		December 31,			June 30,
	Note	**2011**	**2012**	**2013**	**2014**
Assets					
Cash and deposits with central bank	14	48,145,115	53,692,071	65,238,089	68,393,751
Deposits with banks and other financial institutions	15	16,235,408	62,276,490	62,233,233	94,578,302
Placements with banks and other financial institutions	16	–	3,000,000	61,024	383,935
Financial assets at fair value through profit or loss	17	304,893	301,028	–	–
Financial assets held under resale agreements	18	4,274,185	8,929,931	15,706,256	15,350,344
Loans and advances to customers	19	96,762,453	112,271,202	131,557,892	145,523,346
Financial investments:					
Available-for-sale financial assets	20	18,665,194	22,656,211	13,069,779	19,403,759
Held-to-maturity investments	20	28,717,789	28,050,055	35,399,657	41,519,756
Loans and receivables	20	2,139,447	15,964,624	25,312,589	55,680,102
Interest in associates	22	389,819	267,456	287,175	–
Property and equipment	23	2,400,675	2,417,670	2,522,461	3,009,407
Deferred tax assets	24	37,227	175,546	238,214	159,385
Other assets	25	3,134,587	3,239,295	3,805,798	5,125,370
Total assets		221,206,792	313,241,579	355,432,167	449,127,457
Liabilities					
Deposits from banks and other financial institutions	26	13,138,463	38,553,613	41,327,497	68,815,726
Placements from banks and other financial institutions	27	1,560,407	5,620,136	1,189,968	1,716,631
Financial assets sold under repurchase agreements	28	19,142,507	40,773,450	20,919,468	45,391,320
Deposits from customers	29	171,474,491	207,987,227	262,912,728	295,933,625
Income tax payable		568	263,877	423,565	375,984
Debt securities issued	30	2,100,000	2,100,000	900,000	3,100,000
Other liabilities	31	2,432,676	3,285,452	6,288,503	8,192,208
Total liabilities		209,849,112	298,583,755	333,961,729	423,525,494
Equity					
Share capital	33	3,696,005	3,696,005	4,096,005	4,396,005
Capital reserve	34	2,022,383	2,022,383	3,822,383	5,172,383
Surplus reserve	34	874,226	1,223,440	1,709,163	2,193,565
General reserve	34	1,117,045	1,224,128	3,317,751	3,545,649
Investment revaluation reserve	34	247,096	27,443	(251,534)	135,805
(Deficit)/surplus on remeasurement of net defined benefit liability	34	(974)	40	2,830	993
Retained earnings	34	3,401,899	6,072,628	8,358,813	9,730,476
Total equity attributable to equity shareholders of the Bank		11,357,680	14,266,067	21,055,411	25,174,876
Non-controlling interests		–	391,757	415,027	427,087
Total equity		11,357,680	14,657,824	21,470,438	25,601,963
Total liabilities and equity		221,206,792	313,241,579	355,432,167	449,127,457

III 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	Investment revaluation reserve	(Deficit)/ surplus on remeasurement of net defined benefit liability	Retained earnings	Total	Non-controlling interests	Total equity
Balance at January 1, 2011		3,396,005	822,383	612,993	604,620	(7,430)	–	1,563,231	6,991,802	–	6,991,802
Profit for the year		–	–	–	–	–	–	2,612,326	2,612,326	–	2,612,326
Other comprehensive income		–	–	–	–	254,526	(974)	–	253,552	–	253,552
Total comprehensive income		–	–	–	–	254,526	(974)	2,612,326	2,865,878	–	2,865,878
Changes in share capital											
– Capital contributed by owners	*33*	300,000	1,200,000	–	–	–	–	–	1,500,000	–	1,500,000
Appropriation of profit:											
– Appropriation to surplus reserve	*35*	–	–	261,233	–	–	–	(261,233)	–	–	–
– Appropriation to general reserve	*35*	–	–	–	512,425	–	–	(512,425)	–	–	–
Sub-total		–	–	261,233	512,425	–	–	(773,658)	–	–	–
Balance at December 31, 2011		3,696,005	2,022,383	874,226	1,117,045	247,096	(974)	3,401,899	11,357,680	–	11,357,680

III Consolidated statements of changes in equity (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

		Attributable to equity shareholders of the Bank									
	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	(Deficit)/ surplus on remeasurement of net defined benefit liability	Retained earnings	Total	Non-controlling interests	Total equity
Balance at January 1, 2012		3,696,005	2,022,383	874,226	1,117,045	247,096	(974)	3,401,899	11,357,680	–	11,357,680
Profit for the year		–	–	–	–	–	–	3,496,626	3,496,626	12,713	3,509,339
Other comprehensive income		–	–	–	–	(219,653)	1,014	–	(218,639)	–	(218,639)
Total comprehensive income		–	–	–	–	(219,653)	1,014	3,496,626	3,277,987	12,713	3,290,700
Changes in share capital											
– Non-controlling interests of new subsidiaries		–	–	–	–	–	–	–	–	379,044	379,044
Appropriation of profit:											
– Appropriation to surplus reserve	*35*	–	–	349,214	–	–	–	(349,214)	–	–	–
– Appropriation to general reserve	*35*	–	–	–	107,083	–	–	(107,083)	–	–	–
– Cash dividends	*35*	–	–	–	–	–	–	(369,600)	(369,600)	–	(369,600)
Sub-total		–	–	349,214	107,083	–	–	(825,897)	(369,600)	–	(369,600)
Balance at December 31, 2012		3,696,005	2,022,383	1,223,440	1,224,128	27,443	40	6,072,628	14,266,067	391,757	14,657,824

III Consolidated statements of changes in equity (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Attributable to equity shareholders of the Bank									
		Share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	(Deficit)/ surplus on remeasurement of net defined benefit liability	Retained earnings	Total	Non-controlling interests	Total equity
Balance at January 1, 2013		3,696,005	2,022,383	1,223,440	1,224,128	27,443	40	6,072,628	14,266,067	391,757	14,657,824
Profit for the year		–	–	–	–	–	–	4,865,531	4,865,531	23,270	4,888,801
Other comprehensive income		–	–	–	–	(278,977)	2,790	–	(276,187)	–	(276,187)
Total comprehensive income		–	–	–	–	(278,977)	2,790	4,865,531	4,589,344	23,270	4,612,614
Changes in share capital											
– Capital contributed by owners	*33*	400,000	1,800,000	–	–	–	–	–	2,200,000	–	2,200,000
Appropriation of profit:											
– Appropriation to surplus reserve	*35*	–	–	485,723	–	–	–	(485,723)	–	–	–
– Appropriation to general reserve	*35*	–	–	–	2,093,623	–	–	(2,093,623)	–	–	–
Sub-total		–	–	485,723	2,093,623	–	–	(2,579,346)	–	–	–
Balance at December 31, 2013		4,096,005	3,822,383	1,709,163	3,317,751	(251,534)	2,830	8,358,813	21,055,411	415,027	21,470,438

III Consolidated statements of changes in equity (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Attributable to equity shareholders of the Bank									
		Share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	(Deficit)/ surplus on remeasurement of net defined benefit liability	Retained earnings	Total	Non-controlling interests	Total equity
Balance at January 1, 2013		3,696,005	2,022,383	1,223,440	1,224,128	27,443	40	6,072,628	14,266,067	391,757	14,657,824
Profit for the period		–	–	–	–	–	–	2,151,282	2,151,282	10,504	2,161,786
Other comprehensive income		–	–	–	–	8,651	(1,030)	–	7,621	–	7,621
Total comprehensive income		–	–	–	–	8,651	(1,030)	2,151,282	2,158,903	10,504	2,169,407
Appropriation of profit:											
– Appropriation to surplus reserve	35	–	–	–	–	–	–	–	–	–	–
– Appropriation to general reserve	35	–	–	–	2,093,623	–	–	(2,093,623)	–	–	–
Sub-total		–	–	–	2,093,623	–	–	(2,093,623)	–	–	–
Balance at June 30, 2013 (unaudited)		3,696,005	2,022,383	1,223,440	3,317,751	36,094	(990)	6,130,287	16,424,970	402,261	16,827,231
Balance at January 1, 2014		4,096,005	3,822,383	1,709,163	3,317,751	(251,534)	2,830	8,358,813	21,055,411	415,027	21,470,438
Profit for the period		–	–	–	–	–	–	2,493,564	2,493,564	12,060	2,505,624
Other comprehensive income		–	–	–	–	387,339	(1,837)	–	385,502	–	385,502
Total comprehensive income		–	–	–	–	387,339	(1,837)	2,493,564	2,879,066	12,060	2,891,126
Changes in share capital											
– Capital contributed by owners	33	300,000	1,350,000	–	–	–	–	–	1,650,000	–	1,650,000
Appropriation of profit:											
– Appropriation to surplus reserve	35	–	–	484,402	–	–	–	(484,402)	–	–	–
– Appropriation to general reserve *(Note (i))*	35	–	–	–	227,898	–	–	(227,898)	–	–	–
– Cash dividends	35	–	–	–	–	–	–	(409,601)	(409,601)	–	(409,601)
Sub-total		–	–	484,402	227,898	–	–	(1,121,901)	(409,601)	–	(409,601)
Balance at June 30, 2014		4,396,005	5,172,383	2,193,565	3,545,649	135,805	993	9,730,476	25,174,876	427,087	25,601,963

Note:

(i) The appropriation to general reserve includes the appropriation made by subsidiaries accounting to RMB2.72 million.

IV Consolidated cash flow statements

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Years ended December 31, 2011	2012	2013	Six months ended June 30, 2013	2014
					(unaudited)	
Cash flows from operating activities						
Profit before tax		3,275,473	4,482,992	6,307,926	2,753,444	3,282,124
Adjustments for:						
Impairment losses on assets		445,643	431,714	171,860	142,864	369,092
Depreciation and amortisation		220,443	218,200	225,410	110,825	142,021
Unwinding of discount		(16,638)	(4,730)	(10,499)	(5,302)	(11,538)
Unrealised foreign exchange (gains)/losses		(850)	(43)	(1,035)	586	(447)
Net (gains)/losses on disposal of long-term assets		(6,905)	11	(27,147)	–	–
Dividend income		(6,001)	(14,842)	(6,623)	–	–
Net trading losses of financial assets at fair value through profit or loss		34,270	8,206	1,086	745	–
Net losses/(gains) arising from investments		17,172	47,182	(201,590)	(92,867)	111,570
Share of profits of associates		(34,411)	(23,795)	(19,719)	(22,176)	(2,338)
Issuing cost of debt securities		4,110	–	–	–	6,600
Interest expense on debt securities issued		74,834	125,090	119,000	62,250	42,091
Interest income on financial investments and financial assets at fair value through profit or loss		(1,742,502)	(2,883,049)	(4,185,850)	(1,867,976)	(2,354,683)
		2,264,638	2,386,936	2,372,819	1,082,393	1,584,492
Changes in operating assets						
Net increase in deposits with central bank		(9,354,057)	(8,412,262)	(7,846,165)	(3,445,846)	(4,252,825)
Net (increase)/decrease in deposits and placements with bank and other financial institutions		(4,092,375)	(4,801,406)	(41,404,764)	10,214,349	(34,324,516)
Net increase in loans and advances to customers		(15,579,090)	(15,446,177)	(19,608,748)	(13,586,957)	(14,339,840)
Net decrease/(increase) in financial assets held under resale agreements		1,608,613	(4,617,128)	(841,225)	2,951,856	(7,371,735)
Net decrease/(increase) in other operating assets		96,836	(47,124)	32,528	(111,625)	(1,057,252)
		(27,320,073)	(33,324,097)	(69,668,374)	(3,978,223)	(61,346,168)
Changes in operating liabilities						
Net (decrease)/increase in deposits and placements from banks and other financial institutions		(14,376,736)	29,637,870	(1,656,284)	9,993,418	28,014,892
Net (decrease)/increase in financial assets sold under repurchase agreements		(8,565,229)	21,630,943	(19,853,982)	(25,394,310)	24,471,852
Net increase in deposits from customers		38,967,341	36,306,110	54,925,501	27,456,983	33,020,897
Income tax paid		(863,931)	(778,384)	(1,230,043)	(690,823)	(873,753)
Net (decrease)/increase in other operating liabilities		(289,516)	839,166	3,047,400	1,500,130	1,446,203
		14,871,929	87,635,705	35,232,592	12,865,398	86,080,091
Net cash flows (used in)/generated from operating activities		(10,183,506)	56,698,544	(32,062,963)	9,969,568	26,318,415

IV Consolidated cash flow statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Years ended December 31, 2011	2012	2013	Six months ended June 30, 2013 (unaudited)	2014
Cash flows from investing activities						
Proceeds from disposal and redemption of investments		352,082,687	74,853,492	65,968,360	6,201,120	14,892,497
Net cash received for acquisition of subsidiaries		–	129,491	–	–	–
Proceeds from disposal of property and equipment and other assets		156,874	–	112,374	57,832	–
Payments on acquisition of investments		(361,162,274)	(89,720,398)	(69,186,967)	(15,205,580)	(55,108,605)
Investment in an associate		(90,000)	–	–	–	–
Payments on acquisition of property and equipment, intangible assets and other assets		(337,050)	(219,798)	(424,254)	(145,342)	(430,863)
Net cash flows used in investing activities		(9,349,763)	(14,957,213)	(3,530,487)	(9,091,970)	(40,646,971)
Cash flows from financing activities						
Proceeds from capital injection		1,500,000	–	2,200,000	–	1,650,000
Net proceeds from new debt securities issued		895,890	–	–	–	2,193,400
Repayment of debt securities issued		–	–	(1,200,000)	–	–
Interest paid on debt securities issued		(66,000)	(124,500)	(124,500)	–	–
Dividends paid		(101)	(352,248)	(1,063)	(318)	–
Net cash flows generated from/(used in) financing activities		2,329,789	(476,748)	874,437	(318)	3,843,400
Effect of foreign exchange rate changes on cash and cash equivalents		(61,346)	(2,344)	(33,031)	(19,568)	3,810
Net (decrease)/increase in cash and cash equivalents		(17,264,826)	41,262,239	(34,752,044)	857,712	(10,481,346)
Cash and cash equivalents as at January 1		50,781,399	33,516,573	74,778,812	74,778,812	40,026,768
Cash and cash equivalents as at December 31/June 30	36	33,516,573	74,778,812	40,026,768	75,636,524	29,545,422
Net cash flows (used in)/generated from operating activities include:						
Interest received		8,229,903	10,739,946	13,480,370	6,298,244	8,077,562
Interest paid (excluding interest expense on debt securities issued)		(4,621,517)	(6,069,031)	(7,654,221)	(3,467,224)	(5,625,426)

B STATEMENT OF FINANCIAL POSITION

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	December 31, 2011	December 31, 2012	December 31, 2013	June 30, 2014
Assets					
Cash and deposits with central bank	14	48,145,115	53,627,498	65,177,508	68,329,516
Deposits with banks and other financial institutions	15	16,235,408	62,265,886	61,947,923	94,358,222
Placements with banks and other financial institutions	16	–	3,000,000	61,024	383,935
Financial assets at fair value through profit or loss	17	304,893	301,028	–	–
Financial assets held under resale agreements	18	4,274,185	8,929,931	15,706,256	15,350,344
Loans and advances to customers	19	96,762,453	111,798,449	131,059,899	144,989,479
Financial investments:					
Available-for-sale financial assets	20	18,665,194	22,656,211	13,069,779	19,403,759
Held-to-maturity investments	20	28,717,789	28,050,055	35,399,657	41,519,756
Loans and receivables	20	2,139,447	15,964,624	25,312,589	55,680,102
Investments in subsidiaries	21	–	146,157	146,157	146,157
Interest in associates	22	389,819	267,456	287,175	–
Property and equipment	23	2,400,675	2,410,164	2,509,824	2,998,137
Deferred tax assets	24	37,227	175,465	236,294	157,286
Other assets	25	3,134,587	3,236,607	3,802,631	5,121,795
Total assets		221,206,792	312,829,531	354,716,716	448,438,488
Liabilities					
Deposits from banks and other financial institutions	26	13,138,463	38,854,872	41,370,100	68,866,168
Placements from banks and other financial institutions	27	1,560,407	5,620,136	1,189,968	1,716,631
Financial assets sold under repurchase agreements	28	19,142,507	40,773,450	20,919,468	45,391,320
Deposits from customers	29	171,474,491	207,675,402	262,587,962	295,641,429
Income tax payable		568	260,207	420,052	374,488
Debt securities issued	30	2,100,000	2,100,000	900,000	3,100,000
Other liabilities	31	2,432,676	3,283,888	6,286,556	8,190,281
Total liabilities		209,849,112	298,567,955	333,674,106	423,280,317
Equity					
Share capital	33	3,696,005	3,696,005	4,096,005	4,396,005
Capital reserve	34	2,022,383	2,022,383	3,822,383	5,172,383
Surplus reserve	34	874,226	1,223,440	1,709,163	2,193,565
General reserve	34	1,117,045	1,224,128	3,317,751	3,542,926
Investment revaluation reserve	34	247,096	27,443	(251,534)	135,805
(Deficit)/surplus on remeasurement of net defined benefit liability	34	(974)	40	2,830	993
Retained earnings	34	3,401,899	6,068,137	8,346,012	9,716,494
Total equity		11,357,680	14,261,576	21,042,610	25,158,171
Total liabilities and equity		221,206,792	312,829,531	354,716,716	448,438,488

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

1 BACKGROUND INFORMATION

Shengjing Bank Co., Ltd. (the "Bank"), which was formerly known as Shenyang City Cooperative Bank Co., Ltd., is a joint-stock commercial bank established on September 10, 1997 with the approval of the PBOC of the PRC according to the notices YinFu [1996] No. 362 "Approval upon the Preparing of Shenyang City Cooperative Bank" and YinFu [1997] No. 149 "Approval upon the Opening of Shenyang City Cooperative Bank".

The Bank changed its name from Shenyang City Cooperative Bank Co., Ltd. to Shenyang Commercial Bank Co., Ltd. according to LiaoYinFuZi [1998] No.78 issued by Liaoning Branch of the PBOC on June 2, 1998 and ShenYinFu [1998] No.103 issued by Shenyang Branch of the PBOC on June 29, 1998. The Bank changed its name from Shenyang Commercial Bank Co., Ltd. to Shengjing Bank Co., Ltd. according to YinJianFu [2007] No. 68 issued by the China Banking Regulatory Commission (the "CBRC") of the PRC on February 13, 2007.

The Bank obtained its financial institution licence No. B0264H221010001 from the CBRC. The Bank obtained its business license No. 210100000010442 from the State Administration for Industry and Commerce of the PRC. The registered office of the Bank is located at No. 109 Beizhan Road, Shenhe District, Shenyang, Liaoning Province, the PRC. The registered capital of the Bank is RMB4.396 billion as at June 30, 2014.

The Bank has 14 branches in Shenyang, Beijing, Shanghai, Tianjin, Changchun, Dalian, Anshan, Benxi, Jingzhou, Yingkou, Huludao, Panjin, Chaoyang and Fushun as at June 30, 2014. The principal activities of the Bank and its subsidiaries (collectively referred to as the "Group") are the provision of corporate and personal deposits, loans and advances, settlement, treasury business and other banking services as approved by the CBRC. The Bank mainly operated in mainland China, which, for the purpose of this report, excludes the Hong Kong Special Administration Region of the PRC ("Hong Kong"), the Macau Special Administration Region of the PRC and Taiwan.

2 SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance and basis of preparation

The Financial Information set out in this report has been prepared in accordance with International Financial Reporting Standards ("IFRSs") and related interpretations, issued by the International Accounting Standards Board (the "IASB"). The Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing the Financial Information, the Group has adopted all applicable new and revised IFRSs in issue which are relevant to the Group for the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting period ended June 30, 2014. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period ended June 30, 2014 are set out below:

	Effective for accounting periods beginning on or after
Amendments to IAS 19, *Employee benefits: Defined benefit plans: Employee contributions*	July 1, 2014
Amendments to IAS 16 and IAS 38, *Clarification of acceptable methods of depreciation and amortisation*	January 1, 2016
Amendments to IAS 27, *Equity method in separate financial statements*	January 1, 2016
Amendments to IFRS 11, *Accounting for acquisitions of interests in joint operations*	January 1, 2016
IFRS 14, *Regulatory deferral accounts*	January 1, 2016
IFRS 15, *Revenue from contracts with customers*	January 1, 2017
IFRS 9, *Financial Instruments (2014)*	January 1, 2018
Amendments to IFRS 9, *Financial instruments* and IFRS 7 *Financial instruments: Disclosures – Mandatory effective date and transition disclosures*	Unspecified
IFRS 9, *Financial instruments: Hedge accounting and amendments to IFRS 9, IFRS 7 and IAS 39 (2013)*	Unspecified

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(1) Statement of compliance and basis of preparation (continued)

The Group is in the process of assessing the impact of the new standards and amendments on the Financial Information.

The accounting polices set out in Note 2 below have been consistently applied in preparing the Financial Information for the Relevant Periods. The corresponding Financial Information for the six months ended June 30, 2013 has been prepared in accordance with the same basis and accounting policies adopted in respect of the Financial Information.

The Financial Information is presented in Renminbi (RMB), rounded to the nearest thousands, which is the functional currency of the Group.

The preparation of the 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 for judgments on the 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 year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. Judgements that have a significant effect on the Financial Information and estimates with a significant risk of material adjustments in the subsequent period are discussed in Note 2(23).

The measurement basis used in the preparation of the Financial Information is historical cost, with the exception of financial assets and financial liabilities, which are measured at fair value, as stated in Note 2(5).

(2) Subsidiaries and non-controlling interests

Subsidiaries 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 statements 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 statements. 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.

In the Bank's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (Note 2(13)). The results of subsidiaries are accounted for by the Bank on the basis of dividends received and receivable.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(3) Translation of foreign currencies

When the Group receives capital in foreign currencies from investors, the capital is translated to RMB at the spot exchange rates ruling at 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 ruling at the transaction dates.

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 assets and liabilities denominated in foreign currencies are translated to RMB at the spot exchange rates ruling at the end of each of the Relevant Periods. The resulting exchange differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated to RMB using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rates ruling at the dates 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 available-for-sale financial assets which are recognised in investment revaluation reserve.

(4) 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, 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.

(5) Financial instruments

(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 categorised as follows:

- *Financial assets and financial liabilities at fair value through profit or loss*

  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, it is managed in a pattern of short-term profit taking, a derivative, or if it is designated at fair value through profit or loss.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(5) Financial instruments (continued)

(i) Recognition and measurement of financial assets and liabilities (continued)

- *Financial assets and financial liabilities at fair value through profit or loss (continued)*

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 as 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 amortised 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.

Subsequent to initial recognition, loans and receivables are stated at amortised cost using the effective interest method.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(5) Financial instruments (continued)

(i) Recognition and measurement of financial assets and liabilities (continued)

- *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 profit or loss.

- *Other financial liabilities*

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

(ii) Impairment of financial assets

The 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 recognised in profit or loss. Objective evidence of impairment in a 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 reorganisation;
- 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.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(5) Financial instruments (continued)

(ii) Impairment of financial assets (continued)

- *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 collateralised 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 utilises 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.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(5) Financial instruments (continued)

(ii) Impairment of financial assets (continued)

- *Loans and receivables (continued)*

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 some time 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 judgement 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 a loan or receivable has no reasonable prospect of recovery after the Group has completed all the necessary legal or other claim proceedings, the loan or receivable is written off against its provision for impairment losses upon necessary approval. If in a subsequent period the loan written off is 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.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(5) Financial instruments (continued)

(ii) Impairment of financial assets (continued)

- *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 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 amortisation 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 instruments, 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 carried 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. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets at a bid price and liabilities at an ask price.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(5) Financial instruments (continued)

(iv) Derecognition of financial assets and financial liabilities

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities sale and repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(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.

(6) 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 amortised cost.

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statements of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

Interest earned on resale 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.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(7) Business combination

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value of the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

(8) Associates and joint ventures

An associate is an entity in which the Group or 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 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 in the consolidated financial statements of the Group under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the 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 (Note 2(13)). 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 period are recognised in profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in other comprehensive income of the Group. The Group's interest in associate or joint venture is included in the consolidated financial statements from the date that significant influence or joint control commences until the date that significant influence or joint control ends.

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 associate 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 (Note 2(5)).

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(9) Property and equipment

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 (Note 2(13)). Construction in progress ("CIP") is stated in the statements of financial position at cost less impairment loss (Note 2(13)).

The cost of a purchased property and equipment asset 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. 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, each part is depreciated separately.

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:

	Estimated useful lives	Estimated net residual value	Depreciation rate
Premises	20-30 years	3%	3.23%-4.85%
Office equipment	5 years	3%	19.40%
Leasehold improvement	5-10 years	0%	20.00%-10.00%
Others	3-5 years	3%	32.33%-19.40%

(10) Lease

A lease is classified as either a finance lease or an operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of a leased asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred or not. An operating lease is a lease other than a finance lease.

(i) Operating lease charges

Lease payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent lease payments are recognised as expenses in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(10) Lease (continued)

(ii) Assets acquired under finance lease

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 2(9). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(13). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(11) Intangible assets

The intangible assets of the Group have finite useful lives. The intangible assets are stated at cost less accumulated amortisation and impairment losses (Note 2(13)). The cost of intangible assets less residual value and impairment losses is amortised on a straight-line basis over the estimated useful lives.

The respective amortisation periods for intangible assets are as follows:

Software	5-10 years

(12) Repossessed assets

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.

(13) 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
- pre-paid interest in leasehold land classified as being held under an operating lease
- intangible assets
- investment in subsidiaries, associates and joint ventures

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated.

A Cash-Generating Unit (the "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 greater of its fair value less costs of disposal and value in use. 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.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(13) Provision for impairment losses on non-financial assets (continued)

An asset's fair value less costs of disposal 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 value in use 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 current market assessments of the time value of money and the risks 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. Impairment losses related to an asset group or a set of asset groups are allocated first to reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups and then, to reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, the carrying amount of an impaired asset will not be reduced below the highest of its individual fair value less costs of disposal (if measurable), value in use (if measurable) and zero.

An impairment loss in respect of goodwill is not reversed. If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

(14) 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 and an annuity plan.

Social pension schemes

Pursuant to the relevant laws and regulations in the PRC, the Group has participated in the social pension schemes for employees arranged by local government labor 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 profit or loss on an accrual basis. When employees retire, the local government labor 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.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(14) Employee benefits (continued)

(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".

(15) Income tax

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items that are 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 calculated at the applicable tax rate on the taxable income for the period, and any adjustment to tax payable in respect of previous years.

At the end of each of the Relevant Periods, current tax assets and liabilities are offset if the taxable entity has a legally enforceable right to set off them and the entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases, which include the deductible losses and tax credits carried forward to subsequent periods. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be used.

Deferred tax is not recognised for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or tax loss). Deferred tax is not recognised for taxable temporary differences arising from the initial recognition of goodwill.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(15) Income tax (continued)

At the end of each of the Relevant Periods, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities using tax rates that are expected to be applied in the period when the asset is realised or the liability is settled in accordance with tax laws.

The carrying amount of a deferred tax asset is reviewed at the end of each of the Relevant Periods. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the benefit of the deferred tax asset to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

At the end of each of the Relevant Periods, deferred tax assets and liabilities are offset if all the following conditions are met:

– the taxable entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

– they relate to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities, simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(16) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (the "guarantor") to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss that the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income in other liabilities. The deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. Provisions are recognised in the statements of financial position in accordance with Note 2(16)(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.

(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 stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(17) Fiduciary activities

The Group acts in fiduciary activities 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 (the "entrusted funds") to the Group, and the Group grants loans to third parties (the "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.

(18) 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. Income is recognised in profit or loss when it is probable that the economic benefits will flow to the Group, the income and costs can be measured reliably and the following respective conditions are met:

(i) Interest income

Interest income for financial assets is recognised in profit or loss as it is incurred, based on the time for alienation of right to use capital and effective interest rates. Interest income includes the amortisation of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest rate.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the 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 ("unwinding of discount") for the purpose of measuring the related impairment loss.

(ii) Fee and commission income

Fee and commission income is recognised in profit or loss when the corresponding service is provided.

Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without making a loan, the fee is recognised as fee and commission income upon its expiry.

(iii) Other income

Other income is recognised on an accrual basis.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(19) Expenses recognition

(i) Interest expenses

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortised cost and the applicable effective interest rate.

(ii) Other expenses

Other expenses are recognised on an accrual basis.

(20) 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.

(21) 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).

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.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(22) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system, whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and assess its performance. 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 services, the type or class of customers, the methods used to provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated as "others" segment if they share a majority of these criteria.

(23) Significant accounting estimates and judgements

The preparation of the 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.

(i) Impairment losses on loans and advances to customers and financial investments (available-for-sale financial assets, held-to-maturity investments and loans and receivables)

The Group reviews portfolios of loans and advances to customers and financial 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 financial 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.

(ii) 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.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(23) Significant accounting estimates and judgements (continued)

(iii) Classification of held-to-maturity investments

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.

(iv) 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 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 utilised, 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.

(v) 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) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant judgements are exercised over the asset's selling price, related operating expenses and discount 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.

(vi) Depreciation and amortisation

Property and equipment and intangible assets are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in each of the Relevant Periods. The estimated useful lives are determined based on historical experiences of similar assets and estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation will be revised.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

3 NET INTEREST INCOME

	Note	Years ended December 31,			Six months ended June 30,	
		2011	2012	2013	2013	2014
					(unaudited)	
Interest income arising from						
Deposits with central bank		442,243	590,142	745,667	357,911	417,989
Deposits and placements with banks and other financial institutions		415,186	1,775,754	3,279,764	1,456,644	3,070,471
Financial assets at fair value through profit or loss		107,728	13,439	1,340	1,340	–
Loans and advances to customers						
– Corporate loans and advances		6,212,888	8,006,675	8,888,310	4,163,924	5,110,048
– Personal loans and advances		116,818	178,588	197,082	92,882	121,811
– Discounted bills		440,929	205,429	387,147	215,798	439,330
Financial assets held under resale agreements		806,184	195,822	354,193	155,482	361,791
Financial investments		1,634,774	2,869,610	4,184,510	1,866,636	2,354,683
Sub-total		10,176,750	13,835,459	18,038,013	8,310,617	11,876,123
Interest expense arising from						
Borrowings from central bank		(369)	–	–	–	(24)
Deposits and placements from banks and other financial institutions		(504,550)	(1,333,479)	(2,448,083)	(851,619)	(2,115,667)
Deposits from customers		(3,155,562)	(4,492,057)	(6,703,313)	(3,328,275)	(4,406,201)
Financial assets sold under repurchase agreements		(1,097,124)	(1,099,907)	(923,434)	(435,742)	(692,484)
Debt securities issued		(74,834)	(125,090)	(119,000)	(62,250)	(42,091)
Sub-total		(4,832,439)	(7,050,533)	(10,193,830)	(4,677,886)	(7,256,467)
Net interest income		5,344,311	6,784,926	7,844,183	3,632,731	4,619,656
Of which:						
Interest income arising from impaired financial assets identified		16,638	4,730	10,499	5,302	11,538

Notes:

(1) Interest expense on financial liabilities with maturity over five years mainly included the interest expense on deposits from customers and debt securities issued.

(2) Total interest income arising from financial assets that are not at fair value through profit or loss for the years ended December 31, 2011, 2012 and 2013 and for the six months ended June 30, 2013 and 2014 amounted to RMB10,069 million, RMB13,822 million, RMB18,037 million, RMB8,309 million and RMB11,876 million, respectively.

Total interest expense arising from financial liabilities that are not at fair value through profit or loss for the years ended December 31, 2011, 2012 and 2013 and for the six months ended June 30, 2013 and 2014 amounted to RMB4,832 million, RMB7,051 million, RMB10,194 million, RMB4,678 million and RMB7,256 million, respectively.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

4 NET FEE AND COMMISSION INCOME

	Years ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013	2014
				(unaudited)	
Fee and commission income					
Agency and custody services fees	48,890	79,601	726,940	262,280	677,283
Settlement and clearing services fees	33,034	49,703	63,541	28,058	50,030
Bank card services fees	23,238	27,156	37,278	15,338	18,914
Sub-total	105,162	156,460	827,759	305,676	746,227
Fee and commission expense	(40,083)	(44,214)	(57,618)	(24,922)	(39,826)
Net fee and commission income	65,079	112,246	770,141	280,754	706,401

5 NET TRADING (LOSSES)/GAINS

	Years ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013	2014
				(unaudited)	
Net losses from debt securities	(34,270)	(8,206)	(1,086)	(745)	–
Net foreign exchange gains/(losses)	4,762	10,835	(914)	1,881	5,610
Total	(29,508)	2,629	(2,000)	1,136	5,610

Net losses from debt securities include losses arising from the buying and selling of, and changes in the fair value of financial assets held for trading.

Net foreign exchange gains/(losses) mainly include gains and losses from purchase and sale of foreign currency spot, and translation of foreign currency monetary assets and liabilities into Renminbi.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

6 NET (LOSSES)/GAINS ARISING FROM INVESTMENTS

	Years ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013	2014
				(unaudited)	
Dividends from available-for-sale equity investments	6,001	14,842	6,623	–	–
Net (losses)/gains on disposal of available-for-sale financial assets	(17,172)	(47,182)	201,590	92,867	15,418
Losses from cessation of significant influence over investment in an associate *(Note 22(1))*	–	–	–	–	(126,988)
Total	(11,171)	(32,340)	208,213	92,867	(111,570)

7 OTHER OPERATING INCOME

	Years ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013	2014
				(unaudited)	
Net gains/(losses) on sale of repossessed assets	848	(1,851)	5,769	–	8,680
Rental income	13,660	11,533	12,423	5,285	5,327
Handling charge income	5,889	6,097	5,997	2,754	3,153
Government grants	11,648	12,098	15,630	2,481	1,627
Net gains/(losses) on disposal of property and equipment	6,905	(11)	27,147	–	–
Others	5,649	12,964	18,291	685	628
Total	44,599	40,830	85,257	11,205	19,415

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

8 OPERATING EXPENSES

		Years ended December 31,			Six months ended June 30,	
	Note	**2011**	**2012**	**2013**	**2013**	**2014**
					(unaudited)	
Staff costs						
– Salaries, bonuses and allowances		472,974	518,645	650,585	316,710	460,052
– Pension and annuity		65,527	74,749	89,543	45,457	69,483
– Other social insurance		22,653	28,283	43,012	19,052	44,712
– Housing allowances		35,183	39,329	42,890	20,440	25,280
– Supplementary retirement benefits		9,853	4,725	1,047	2,999	9,291
– Others		31,059	38,925	51,660	24,099	25,603
Subtotal		637,249	704,656	878,737	428,757	634,421
Depreciation and amortisation		220,443	218,200	225,410	110,825	142,021
Rental and property management expenses		93,631	105,343	135,418	51,356	93,251
Office expenses		197,760	231,412	271,217	130,993	121,370
Business tax and surcharges		428,892	580,186	753,009	344,580	481,271
Other general and administrative expenses	*8(1)*	148,630	177,583	181,936	78,050	118,300
Total		1,726,605	2,017,380	2,445,727	1,144,561	1,590,634

Note:

(1) Auditors' remunerations were RMB1.71 million, RMB1.99 million, RMB2.44 million for the years ended December 31, 2011, 2012 and 2013, nil for the six months ended June 30, 2013, and RMB1.79 million for the six months ended June 30, 2014, respectively.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

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 December 31, 2011						
Name	**Fees**	**Salaries**	**Discretionary bonuses**	**Contributions to social pension schemes**	**Total emoluments before tax**	**Deferred payment**	**Actual amount of remuneration paid (pre-tax)**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors							
Zhang Yukun	–	2,099	793	74	2,966	671	2,295
Wang Chunsheng	–	1,394	969	74	2,437	399	2,038
Zhao Guangwei	–	1,394	969	74	2,437	399	2,038
Hu Guang	–	1,182	645	74	1,901	322	1,579
Zhou Hongmin	–	1,472	882	74	2,428	355	2,073
Non-executive director							
Liu Xinfa	54	–	–	–	54	–	54
Li Jianwei	28	–	–	–	28	–	28
Chen Zhaogui	54	–	–	–	54	–	54
Jiang Baisan	54	–	–	–	54	–	54
Su Zhuangqiang	54	–	–	–	54	–	54
Hu Yuzhou	52	–	–	–	52	–	52
Wang Guiwu	54	–	–	–	54	–	54
Independent non-executive directors							
Lv Yihuan	–	60	85	–	145	–	145
Bao Zhendong	–	60	85	–	145	–	145
Sun Ping	–	60	77	–	137	–	137
Cui Wantian	–	60	77	–	137	–	137
Ba Junyu	–	60	79	–	139	–	139
Liu Xue *(Note (2))*	–	–	–	–	–	–	–
Cheng Wei *(Note (2))*	–	55	57	–	112	–	112
Supervisors							
Yang Lin	–	1,608	951	74	2,633	634	1,999
Huang Yongjiu	–	1,185	743	74	2,002	387	1,615
Han Xuefeng	–	770	145	74	989	176	813
Liu Zhiyan	–	891	150	74	1,115	181	934
Zhao Weiqing	59	–	–	–	59	–	59
Zhang Dianhua	59	–	–	–	59	–	59
Yu Haobo	59	–	–	–	59	–	59
Bao Lijun	59	–	–	–	59	–	59
Wang Guanglin	–	60	70	–	130	–	130
Li Shouhuai	–	60	73	–	133	–	133
Ma Huili *(Note (1))*	34	–	–	–	34	–	34
Song Shenjian *(Note (1))*	25	–	–	–	25	–	25
Total	645	12,470	6,850	666	20,631	3,524	17,107

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

	Year ended December 31, 2012						
Name	**Fees**	**Salaries**	**Discretionary bonuses**	**Contributions to social pension schemes**	**Total emoluments before tax**	**Deferred payment**	**Actual amount of remuneration paid (pre-tax)**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors							
Zhang Yukun	–	1,649	1,233	94	2,976	450	2,526
Wang Chunsheng	–	1,394	1,118	94	2,606	427	2,179
Zhao Guangwei	–	1,394	1,118	94	2,606	427	2,179
Hu Guang	–	1,182	901	94	2,177	400	1,777
Xu Jingwei *(Note (3))*	–	1,394	1,035	94	2,523	427	2,096
Zhou Hongmin *(Note (3))*	–	200	–	16	216	–	216
Non-executive directors							
Liu Xinfa	19	–	–	–	19	–	19
Li Jianwei	19	–	–	–	19	–	19
Chen Zhaogui	19	–	–	–	19	–	19
Jiang Baisan	19	–	–	–	19	–	19
Su Zhuangqiang	19	–	–	–	19	–	19
Hu Yuzhou	13	–	–	–	13	–	13
Wang Guiwu	19	–	–	–	19	–	19
Independent non-executive directors							
Lv Yihuan	–	60	62	–	122	–	122
Bao Zhendong	–	60	64	–	124	–	124
Sun Ping	–	60	64	–	124	–	124
Cui Wantian	–	60	64	–	124	–	124
Ba Junyu	–	60	64	–	124	–	124
Liu Xue	–	60	62	–	122	–	122
Supervisors							
Yang Lin	–	1,588	1,148	94	2,830	370	2,460
Huang Yongjiu	–	1,185	1,174	94	2,453	563	1,890
Han Xuefeng	–	770	438	94	1,302	166	1,136
Liu Zhiyan	–	891	418	94	1,403	92	1,311
Zhao Weiqing	25	–	–	–	25	–	25
Zhang Dianhua	25	–	–	–	25	–	25
Yu Haobo	25	–	–	–	25	–	25
Ma Huili	25	–	–	–	25	–	25
Bao Lijun	25	–	–	–	25	–	25
Wang Guanglin	–	60	65	–	125	–	125
Li Shouhuai	–	60	65	–	125	–	125
Total	252	12,127	9,093	862	22,334	3,322	19,012

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

	Year ended December 31, 2013						
Name	Fees	Salaries	Discretionary bonuses	Contributions to social pension schemes	Total emoluments before tax	Deferred payment	Actual amount of remuneration paid (pre-tax)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors							
Zhang Yukun	–	2,049	844	100	2,993	277	2,716
Wang Chunsheng	–	1,771	648	100	2,519	191	2,328
Zhao Guangwei	–	1,495	708	100	2,303	139	2,164
Hu Guang	–	1,167	717	100	1,984	100	1,884
Wang Yigong *(Note (6))*	–	1,395	645	100	2,140	139	2,001
Xu Jingwei *(Note (6))*	–	649	35	66	750	–	750
Non-executive directors							
Liu Xinfa	35	–	–	–	35	–	35
Li Jianwei	35	–	–	–	35	–	35
Chen Zhaogui	35	–	–	–	35	–	35
Jiang Baisan	35	–	–	–	35	–	35
Su Zhuangqiang	25	–	–	–	25	–	25
Sun Yi *(Note (4))*	16	–	–	–	16	–	16
Li Yuguo *(Note (5))*	16	–	–	–	16	–	16
Hu Yuzhou *(Note (4))*	–	–	–	–	–	–	–
Wang Guiwu *(Note (5))*	19	–	–	–	19	–	19
Independent non-executive directors							
Lv Yihuan	–	60	65	–	125	–	125
Bao Zhendong	–	60	67	–	127	–	127
Sun Ping	–	60	62	–	122	–	122
Cui Wantian	–	60	66	–	126	–	126
Ba Junyu	–	60	69	–	129	–	129
Liu Xue	–	60	66	–	126	–	126
Supervisors							
Yang Lin	–	1,909	753	100	2,762	217	2,545
Huang Yongjiu	–	1,385	817	100	2,302	71	2,231
Han Xuefeng	–	770	695	100	1,565	42	1,523
Liu Zhiyan	–	792	670	100	1,562	81	1,481
Zhao Weiqing	35	–	–	–	35	–	35
Zhang Dianhua	35	–	–	–	35	–	35
Yu Haobo	51	–	–	–	51	–	51
Ma Huili	29	–	–	–	29	–	29
Bao Lijun	35	–	–	–	35	–	35
Wang Guanglin	–	60	111	–	171	–	171
Li Shouhuai	–	60	95	–	155	–	155
Total	401	13,862	7,133	966	22,362	1,257	21,105

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

	Six months ended June 30, 2013 (Unaudited)						
Name	Fees	Salaries	Discretionary bonuses	Contributions to social pension schemes	Total emoluments before tax	Deferred payment	Actual amount of remuneration paid (pre-tax)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors							
Zhang Yukun	–	904	445	50	1,399	–	1,399
Wang Chunsheng	–	566	335	50	951	–	951
Zhao Guangwei	–	487	331	50	868	–	868
Hu Guang	–	433	325	50	808	–	808
Xu Jingwei	–	649	35	66	750	–	750
Non-executive directors							
Liu Xinfa	13	–	–	–	13	–	13
Li Jianwei	13	–	–	–	13	–	13
Chen Zhaogui	13	–	–	–	13	–	13
Jiang Baisan	13	–	–	–	13	–	13
Su Zhuangqiang	13	–	–	–	13	–	13
Wang Guiwu	13	–	–	–	13	–	13
Sun Yi *(Note (4))*	13	–	–	–	13	–	13
Hu Yuzhou *(Note (4))*	–	–	–	–	–	–	–
Independent non-executive directors							
Lv Yihuan	–	30	13	–	43	–	43
Bao Zhendong	–	30	13	–	43	–	43
Sun Ping	–	30	–	–	30	–	30
Cui Wantian	–	30	13	–	43	–	43
Ba Junyu	–	30	13	–	43	–	43
Liu Xue	–	30	13	–	43	–	43
Supervisors							
Yang Lin	–	724	385	50	1,159	–	1,159
Huang Yongjiu	–	487	341	50	878	–	878
Han Xuefeng	–	325	284	49	658	–	658
Liu Zhiyan	–	325	283	50	658	–	658
Zhao Weiqing	19	–	–	–	19	–	19
Zhang Dianhua	19	–	–	–	19	–	19
Yu Haobo	25	–	–	–	25	–	25
Ma Huili	19	–	–	–	19	–	19
Bao Lijun	19	–	–	–	19	–	19
Wang Guanglin	–	30	25	–	55	–	55
Li Shouhuai	–	30	19	–	49	–	49
Total	192	5,140	2,873	465	8,670	–	8,670

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

	Six months ended June 30, 2014						
Name	**Fees**	**Salaries**	**Discretionary bonuses**	**Contributions to social pension schemes**	**Total emoluments before tax**	**Deferred payment**	**Actual amount of remuneration paid (pre-tax)**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors							
Zhang Yukun	–	995	52	54	1,101	–	1,101
Wang Chunsheng	–	797	49	54	900	–	900
Zhao Guangwei	–	536	43	54	633	–	633
Wang Yigong	–	536	43	54	633	–	633
Wu Gang *(Note (7))*	–	–	–	–	–	–	–
Hu Guang *(Note (7))*	–	476	47	54	577	–	577
Non-executive directors							
Liu Xinfa	13	–	–	–	13	–	13
Li Jianwei	19	–	–	–	19	–	19
Li Yuguo	25	–	–	–	25	–	25
Yang Yuhua *(Note (7))*	–	–	–	–	–	–	–
Zhao Weiqing *(Note (7))*	38	–	–	–	38	–	38
Chen Zhaogui *(Note (7))*	31	–	–	–	31	–	31
Sun Yi *(Note (7))*	31	–	–	–	31	–	31
Jiang Baisan *(Note (7))*	31	–	–	–	31	–	31
Su Zhuangqiang *(Note (7))*	31	–	–	–	31	–	31
Independent non-executive directors							
Ba Junyu	–	30	25	–	55	–	55
Yu Yongshun *(Note (7))*	–	–	–	–	–	–	–
Lau Chi Pang *(Note (7))*	–	–	–	–	–	–	–
Sun Hang *(Note (7))*	–	–	–	–	–	–	–
Ding Jiming *(Note (7))*	–	–	–	–	–	–	–
Lv Yihuan *(Note (7))*	–	30	6	–	36	–	36
Bao Zhendong *(Note (7))*	–	30	31	–	61	–	61
Sun Ping *(Note (7))*	–	30	13	–	43	–	43
Cui Wantian *(Note (7))*	–	30	25	–	55	–	55
Liu Xue *(Note (7))*	–	30	6	–	36	–	36
Supervisors							
Yang Lin	–	797	55	54	906	–	906
Huang Yongjiu *(Note (7))*	–	536	56	54	646	–	646
Han Xuefeng	–	357	43	54	454	–	454
Shi Yang *(Note (8))*	–	–	–	–	–	–	–
Pan Wenge *(Note (7))*	–	–	–	–	–	–	–
Huang Liangkuai *(Note (7))*	–	–	–	–	–	–	–
Zhou Zheren *(Note (7))*	–	–	–	–	–	–	–
Wen Zhaoye *(Note (7))*	–	–	–	–	–	–	–
Zhang Dianhua *(Note (7))*	38	–	–	–	38	–	38
Yu Haobo *(Note (7))*	38	–	–	–	38	–	38
Ma Huili *(Note (7))*	38	–	–	–	38	–	38
Bao Lijun *(Note (7))*	31	–	–	–	31	–	31
Wang Guanglin *(Note (7))*	–	30	38	–	68	–	68
Li Shouhuai *(Note (7))*	–	30	25	–	55	–	55
Liu Zhiyan *(Note (8))*	–	357	52	54	463	–	463
Total	364	5,627	609	486	7,086	–	7,086

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

Notes:

(1) At the Bank's 2010 General Meeting held on March 26, 2011, Ma Huili was elected as supervisor of the Bank; Song Shenjian was no longer supervisor of the Bank.

(2) At the Bank's 2011 third Extraordinary General Meeting held on December 24, 2011, Liu Xue was elected as independent non-executive director of the Bank; Cheng Wei was no longer independent non-executive director of the Bank.

(3) At the Bank's 2011 General Meeting held on March 24, 2012, Xu Jingwei was elected as executive director of the Bank; Zhou Hongmin was no longer executive director of the Bank.

(4) At the Bank's 2012 General Meeting held on March 24, 2013, Sun Yi was elected as non-executive director of the Bank; Hu Yuzhou was no longer non-executive director of the Bank.

(5) At the Bank's 2013 first Extraordinary General Meeting held on July 23, 2013, Li Yuguo was elected as non-executive director of the Bank; Wang Guiwu was no longer non-executive director of the Bank.

(6) At the Bank's 2013 second Extraordinary General Meeting held on August 26, 2013, Wang Yigong was elected as executive director of the Bank; Xu Jingwei was no longer executive director of the Bank.

(7) At the Bank's 2013 General Meeting held on May 30, 2014, Wu Gang was elected as executive director of the Bank, and Hu Guang was no longer executive director of the Bank; Yang Yuhua and Zhao Weiqing were elected as non-executive director of the Bank, and Chen Zhaogui, Sun Yi, Jiang Baisan and Su Zhuangqiang were no longer non-executive directors of the Bank; Yu Yongshun, Lau Chi Pang, Sun Hang and Ding Jiming were elected as independent non-executive directors of the Bank, and Lv Yihuan, Bao Zhendong, Sun Ping, Cui Wantian and Liu Xue were no longer independent non-executive directors of the Bank; Chen Zhaogui, Pan Wenge, Sun Yi, Huang Liangkuai, Zhou Zheren and Wen Zhaoye were elected as supervisors of the Bank, and Huang Yongjiu, Zhao Weiqing, Zhang Dianhua, Yu Haobo, Ma Huili, Bao Lijun, Wang Guanglin and Li Shouhuai were no longer supervisors of the Bank.

(8) At June 11, 2014, Shi Yang was elected as supervisor of the Bank, and Liu Zhiyan was no longer supervisor of the Bank.

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2013 and 2014, the five individuals with highest emoluments included three directors and one supervisor, four directors and one supervisor, three directors and two supervisors, three directors and two supervisors, three directors and two supervisors of the Bank, respectively, whose emoluments are disclosed in Note 9. The emoluments for the rest of the five highest paid individuals for the year ended December 31, 2011 are as follows:

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS (continued)

	Years ended December 31			Six months ended June 30,	
	2011	2012	2013	2013	2014
				(unaudited)	
Salaries and other emoluments	1,394	–	–	–	–
Discretionary bonuses	967	–	–	–	–
Contributions to pension schemes	74	–	–	–	–
Total	2,435	–	–	–	–

The individual whose emoluments before individual income tax are within the following band is set out below:

	Years ended December 31			Six months ended June 30,	
	2011	2012	2013	2013	2014
				(unaudited)	
HKD3,000,001-3,500,000	1	–	–	–	–
Total	1	–	–	–	–

11 IMPAIRMENT LOSSES ON ASSETS

	Years ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013	2014
				(unaudited)	
Loans and advances to customers	445,711	351,773	186,390	139,118	385,624
Others	(68)	79,941	(14,530)	3,746	(16,532)
Total	445,643	431,714	171,860	142,864	369,092

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

12 INCOME TAX EXPENSE

(1) Income tax for the Relevant Periods:

	Note	Years ended December 31,			Six months ended June 30,	
		2011	2012	2013	2013	2014
					(unaudited)	
Current tax		724,170	1,039,092	1,389,731	615,951	826,172
Deferred tax	24(2)	(61,023)	(65,439)	29,394	(24,293)	(49,672)
Total		663,147	973,653	1,419,125	591,658	776,500

(2) Reconciliations between income tax and accounting profit are as follows:

	Note	Years ended December 31,			Six months ended June 30,	
		2011	2012	2013	2013	2014
					(unaudited)	
Profit before taxation		3,275,473	4,482,992	6,307,926	2,753,444	3,282,124
Statutory tax rate		25%	25%	25%	25%	25%
Income tax calculated at statutory tax rate		818,868	1,120,748	1,576,982	688,361	820,531
Non-deductible expenses						
– Entertainment expenses		4,086	4,290	4,114	1,850	1,106
– Non-deductible losses from write-offs of loan receivable		4,534	10,079	15,264	6,988	2,611
– Losses from cessation of significant influence over investment in an associate		–	–	–	–	31,747
– Others		5,197	3,966	5,056	9,354	3,446
		13,817	18,335	24,434	18,192	38,910
Non-taxable income	12(2)(a)	(169,538)	(164,399)	(141,105)	(73,709)	(82,941)
Sub-total		663,147	974,684	1,460,311	632,844	776,500
Adjustment for prior years		–	(1,031)	(41,186)	(41,186)	–
Income tax		663,147	973,653	1,419,125	591,658	776,500

Note:

(a) Non-taxable income consists of interest income from the PRC government bonds, dividends from domestic companies and share of profits of associates, which are exempted from income tax under the PRC tax regulations.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

13 BASIC AND DILUTED EARNINGS PER SHARE

	Years ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013	2014
				(unaudited)	
Net profit attributable to equity shareholders of the Bank	2,612,326	3,496,626	4,865,531	2,151,282	2,493,564
Weighted average number of ordinary shares (in thousands)	3,400,937	3,696,005	3,701,485	3,696,005	4,200,425
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)	0.77	0.95	1.31	0.58	0.59

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the Relevant Periods.

(1) Weighted average number of ordinary shares (in thousands)

	Years ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013	2014
				(unaudited)	
Number of ordinary shares as at January 1	3,396,005	3,696,005	3,696,005	3,696,005	4,096,005
Increase in weighted average number of ordinary shares	4,932	–	5,480	–	104,420
Weighted average number of ordinary shares	3,400,937	3,696,005	3,701,485	3,696,005	4,200,425

In December 2011, the Bank issued 300 million ordinary shares with a par value of RMB1. In December 2013, the Bank issued 400 million ordinary shares with a par value of RMB1. In April 2014, the Bank issued 300 million ordinary shares with a par value of RMB1. The detailed information is set out in Note 33.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

14 CASH AND DEPOSITS WITH CENTRAL BANK

The Group

	Note	December 31, 2011	December 31, 2012	December 31, 2013	June 30, 2014
Cash on hand		427,010	599,977	518,431	647,885
Deposits with central bank					
– Statutory deposit reserves	*14(1)*	29,537,362	37,940,117	45,644,541	49,706,782
– Surplus deposit reserves	*14(2)*	18,040,959	14,914,998	18,696,397	17,469,780
– Fiscal deposits		139,784	236,979	378,720	569,304
Sub-total		47,718,105	53,092,094	64,719,658	67,745,866
Total		48,145,115	53,692,071	65,238,089	68,393,751

The Bank

	Note	December 31, 2011	December 31, 2012	December 31, 2013	June 30, 2014
Cash on hand		427,010	597,940	516,617	645,501
Deposits with central bank					
– Statutory deposit reserves	*14(1)*	29,537,362	37,910,931	45,596,217	49,667,099
– Surplus deposit reserves	*14(2)*	18,040,959	14,881,648	18,685,954	17,447,612
– Fiscal deposits		139,784	236,979	378,720	569,304
Sub-total		47,718,105	53,029,558	64,660,891	67,684,015
Total		48,145,115	53,627,498	65,177,508	68,329,516

(1) The Bank 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:

	December 31, 2011	December 31, 2012	December 31, 2013	June 30, 2014
Reserve ratio for RMB deposits	19%	18%	18%	18%
Reserve ratio for foreign currency deposits	5%	5%	5%	5%

The six rural banking subsidiaries of the Bank are required to place statutory RMB deposits reserve at rates determined by the PBOC.

The statutory deposit reserves are not available for the Group's daily business.

(2) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

15 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

The Group

	December 31,			June 30,
	2011	2012	2013	2014
Deposits in mainland China				
– Banks	15,895,782	61,948,459	62,038,467	94,485,120
– Other financial institutions	–	–	–	3,849
Deposits outside mainland China				
– Banks	339,626	328,031	194,766	89,333
Total	16,235,408	62,276,490	62,233,233	94,578,302

The Bank

	December 31,			June 30,
	2011	2012	2013	2014
Deposits in mainland China				
– Banks	15,895,782	61,937,855	61,753,157	94,265,040
– Other financial institutions	–	–	–	3,849
Deposits outside mainland China				
– Banks	339,626	328,031	194,766	89,333
Total	16,235,408	62,265,886	61,947,923	94,358,222

16 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

The Group and the Bank

	December 31,			June 30,
	2011	2012	2013	2014
Placements in mainland China				
– Banks	–	3,000,000	61,024	383,935
Total	–	3,000,000	61,024	383,935

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group and the Bank

	December 31,			June 30,
	2011	2012	2013	2014
Held for trading purpose				
Policy banks				
– Listed outside Hong Kong	304,893	301,028	–	–
Total	304,893	301,028	–	–

18 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(1) Analysed by type and location of counterparty

The Group and the Bank

	December 31,			June 30,
	2011	2012	2013	2014
In mainland China				
– Banks	4,171,318	7,956,716	15,406,256	15,350,344
– Other financial institutions	102,867	973,215	300,000	–
Total	4,274,185	8,929,931	15,706,256	15,350,344

(2) Analysed by type of security held

The Group and the Bank

	December 31,			June 30,
	2011	2012	2013	2014
Bills held under resale agreements	4,171,318	8,929,931	1,767,996	13,207,844
Debt securities held under resale agreements	102,867	–	13,938,260	2,142,500
Total	4,274,185	8,929,931	15,706,256	15,350,344

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS

(1) Analysed by nature

The Group

	December 31,			June 30,
	2011	2012	2013	2014
Corporate loans and advances	95,819,735	111,027,556	129,178,530	142,491,806
Personal loans and advances				
– Residential mortgage	2,311,717	2,661,140	2,920,696	3,181,837
– Personal consumption loans	53,042	117,747	236,537	559,346
– Credit cards	155,308	236,523	433,584	493,105
– Personal business loans	9,193	63,622	247,091	343,859
– Others	23,430	24,230	21,781	42,790
Sub-total	2,552,690	3,103,262	3,859,689	4,620,937
Discounted bills	–	–	398,591	632,518
Gross loans and advances to customers	98,372,425	114,130,818	133,436,810	147,745,261
Less: Provision for impairment losses				
– Individually assessed	(436,140)	(375,424)	(228,496)	(260,915)
– Collectively assessed	(1,173,832)	(1,484,192)	(1,650,422)	(1,961,000)
Total provision for impairment losses	(1,609,972)	(1,859,616)	(1,878,918)	(2,221,915)
Net loans and advances to customers	96,762,453	112,271,202	131,557,892	145,523,346

The Bank

	December 31,			June 30,
	2011	2012	2013	2014
Corporate loans and advances	95,819,735	110,577,056	128,724,250	142,014,626
Personal loans and advances				
– Residential mortgage	2,311,717	2,661,140	2,920,696	3,181,837
– Personal consumption loans	53,042	115,747	225,637	533,346
– Credit cards	155,308	236,523	433,584	493,105
– Personal business loans	9,193	37,672	201,301	321,569
– Others	23,430	24,230	21,781	20,350
Sub-total	2,552,690	3,075,312	3,802,999	4,550,207
Discounted bills	–	–	398,591	632,518
Gross loans and advances to customers	98,372,425	113,652,368	132,925,840	147,197,351
Less: Provision for impairment losses				
– Individually assessed	(436,140)	(375,424)	(225,030)	(256,382)
– Collectively assessed	(1,173,832)	(1,478,495)	(1,640,911)	(1,951,490)
Total provision for impairment losses	(1,609,972)	(1,853,919)	(1,865,941)	(2,207,872)
Net loans and advances to customers	96,762,453	111,798,449	131,059,899	144,989,479

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(2) Analysed by economic sector

The Group and the Bank

	December 31, 2011		
	Amount	Percentage	Loans and advances secured by collaterals
Real estate	20,326,195	21%	17,722,412
Wholesale and retail trade	19,189,131	20%	8,398,600
Manufacturing	13,888,252	14%	3,528,759
Renting and business activities	8,671,084	9%	5,874,289
Construction	9,094,310	9%	4,858,346
Public administration and social organisations	4,449,000	5%	3,549,000
Production and supply of electric power, gas and water	3,462,548	4%	191,300
Transportation, storage and postal services	3,294,731	3%	572,121
Household and other services	2,745,595	3%	679,109
Culture, sports and entertainment	2,069,742	2%	273,992
Mining	1,416,000	1%	200,000
Accommodation and catering	1,277,101	1%	1,054,065
Agriculture, forestry, animal husbandry and fishery	343,549	1%	316,049
Others	5,592,497	5%	1,256,178
Sub-total of corporate loans and advances	95,819,735	98%	48,474,220
Personal loans and advances	2,552,690	2%	2,257,517
Gross loans and advances to customers	98,372,425	100%	50,731,737

The Group

	December 31, 2012		
	Amount	Percentage	Loans and advances secured by collaterals
Wholesale and retail trade	24,060,887	21%	10,637,189
Real estate	22,997,244	20%	20,337,676
Manufacturing	17,268,096	15%	4,082,039
Construction	11,655,451	10%	8,086,487
Renting and business activities	9,189,539	8%	6,189,939
Public administration and social organisations	5,960,000	5%	5,600,000
Transportation, storage and postal services	2,521,739	2%	739,149
Production and supply of electric power, gas and water	2,466,391	2%	479,171
Culture, sports and entertainment	2,132,552	2%	287,492
Household and other services	1,975,706	2%	837,509
Mining	1,799,533	2%	463,533
Accommodation and catering	1,380,098	1%	890,722
Agriculture, forestry, animal husbandry and fishery	659,117	1%	306,420
Others	6,961,203	6%	2,992,579
Sub-total of corporate loans and advances	111,027,556	97%	61,929,905
Personal loans and advances	3,103,262	3%	2,635,754
Gross loans and advances to customers	114,130,818	100%	64,565,659

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(2) Analysed by economic sector (continued)

The Group

	December 31, 2013		
	Amount	Percentage	Loans and advances secured by collaterals
Wholesale and retail trade	27,389,628	21%	15,671,654
Real estate	25,216,935	19%	23,077,275
Manufacturing	24,894,038	19%	5,713,759
Renting and business activities	14,370,203	11%	10,165,903
Construction	10,068,072	8%	6,534,192
Public administration and social organisations	4,148,000	3%	3,828,000
Production and supply of electric power, gas and water	3,254,716	2%	1,133,500
Mining	2,959,170	2%	205,000
Culture, sports and entertainment	2,886,892	2%	434,892
Transportation, storage and postal services	2,858,673	2%	2,148,173
Household and other services	2,143,890	2%	851,900
Agriculture, forestry, animal husbandry and fishery	1,954,777	1%	69,700
Accommodation and catering	1,880,252	1%	1,740,000
Others	5,153,284	4%	2,477,331
Sub-total of corporate loans and advances	129,178,530	97%	74,051,279
Personal loans and advances	3,859,689	3%	3,119,164
Discounted bills	398,591	0%	398,591
Gross loans and advances to customers	133,436,810	100%	77,569,034

	June 30, 2014		
	Amount	Percentage	Loans and advances secured by collaterals
Wholesale and retail trade	28,964,813	20%	16,410,400
Manufacturing	28,624,398	19%	6,422,051
Real estate	27,729,391	19%	25,804,154
Renting and business activities	18,357,112	12%	13,703,472
Construction	9,954,400	7%	6,262,720
Transportation, storage and postal services	4,462,793	3%	2,305,653
Production and supply of electric power, gas and water	3,808,766	3%	1,144,550
Mining	3,472,000	2%	420,000
Public administration and social organisations	3,466,500	2%	3,466,500
Culture, sports and entertainment	2,970,100	2%	428,100
Household and other services	1,885,200	1%	853,000
Accommodation and catering	1,740,590	1%	1,349,590
Agriculture, forestry, animal husbandry and fishery	1,519,500	1%	101,000
Others	5,536,243	4%	2,993,061
Sub-total of corporate loans and advances	142,491,806	96%	81,664,251
Personal loans and advances	4,620,937	3%	3,743,274
Discounted bills	632,518	1%	632,518
Gross loans and advances to customers	147,745,261	100%	86,040,043

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(2) Analysed by economic sector (continued)

The Bank

	December 31, 2012		
	Amount	Percentage	Loans and advances secured by collaterals
Wholesale and retail trade	23,947,487	21%	10,592,489
Real estate	22,964,244	20%	20,334,676
Manufacturing	17,206,996	15%	4,075,939
Construction	11,568,451	10%	8,061,487
Renting and business activities	9,184,539	8%	6,189,939
Public administration and social organisations	5,960,000	5%	5,600,000
Transportation, storage and postal services	2,518,739	2%	736,149
Production and supply of electric power, gas and water	2,463,391	2%	479,171
Culture, sports and entertainment	2,122,552	2%	287,492
Household and other services	1,957,706	2%	837,509
Mining	1,799,533	2%	463,533
Accommodation and catering	1,377,098	1%	887,722
Agriculture, forestry, animal husbandry and fishery	575,117	1%	299,420
Others	6,931,203	6%	2,989,579
Sub-total of corporate loans and advances	110,577,056	97%	61,835,105
Personal loans and advances	3,075,312	3%	2,627,704
Gross loans and advances to customers	113,652,368	100%	64,462,809

	December 31, 2013		
	Amount	Percentage	Loans and advances secured by collaterals
Wholesale and retail trade	27,257,328	21%	15,594,354
Real estate	25,192,935	19%	23,077,275
Manufacturing	24,821,038	19%	5,711,759
Renting and business activities	14,362,203	11%	10,162,903
Construction	9,995,092	8%	6,515,192
Public administration and social organisations	4,148,000	3%	3,828,000
Production and supply of electric power, gas and water	3,242,716	2%	1,133,500
Mining	2,959,170	2%	205,000
Culture, sports and entertainment	2,886,892	2%	434,892
Transportation, storage and postal services	2,858,673	2%	2,148,173
Household and other services	2,126,690	2%	851,900
Accommodation and catering	1,880,252	1%	1,740,000
Agriculture, forestry, animal husbandry and fishery	1,866,977	1%	69,700
Others	5,126,284	4%	2,474,331
Sub-total of corporate loans and advances	128,724,250	97%	73,946,979
Personal loans and advances	3,802,999	3%	3,098,634
Discounted bills	398,591	0%	398,591
Gross loans and advances to customers	132,925,840	100%	77,444,204

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(2) Analysed by economic sector (continued)

The Bank

	June 30, 2014		
	Amount	Percentage	Loans and advances secured by collaterals
Wholesale and retail trade	28,781,213	20%	16,334,800
Manufacturing	28,551,498	19%	6,420,051
Real estate	27,710,391	19%	25,804,154
Renting and business activities	18,354,112	12%	13,700,472
Construction	9,904,420	7%	6,247,720
Transportation, storage and postal services	4,462,793	3%	2,305,653
Production and supply of electric power, gas and water	3,799,766	3%	1,144,550
Mining	3,472,000	2%	420,000
Public administration and social organisations	3,466,500	2%	3,466,500
Culture, sports and entertainment	2,970,100	2%	428,100
Household and other services	1,868,000	1%	853,000
Accommodation and catering	1,740,590	1%	1,349,590
Agriculture, forestry, animal husbandry and fishery	1,424,000	1%	94,000
Others	5,509,243	4%	2,990,061
Sub-total of corporate loans and advances	142,014,626	96%	81,558,651
Personal loans and advances	4,550,207	3%	3,720,964
Discounted bills	632,518	1%	632,518
Gross loans and advances to customers	147,197,351	100%	85,912,133

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 as well as the corresponding provision for impairment losses in respect of each economic sector which constitutes 10% or more of gross loans and advances to customers is as follows:

The Group and the Bank

	December 31, 2011				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged/ (reversal) during the year	Written-off during the year
Wholesale and retail trade	158,832	142,150	149,433	84,034	31,537
Real estate	29,594	19,227	363,222	(45,931)	7,460
Manufacturing	305,721	208,084	120,266	134,367	15,408

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(2) Analysed by economic sector (continued)

The Group

	December 31, 2012				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment (reversal)/ charged during the year	Written-off during the year
Wholesale and retail trade	88,790	84,583	197,931	(9,068)	58,351
Real estate	24,584	17,489	556,366	191,306	2,690
Manufacturing	348,960	212,820	145,957	30,427	22,561
Construction	33,510	25,590	188,957	10,393	6,443

	December 31, 2013				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment (reversal)/ charged during the year	Written-off during the year
Wholesale and retail trade	42,382	23,263	234,772	(24,479)	65,057
Real estate	191,581	28,403	556,839	11,388	1,909
Manufacturing	294,341	150,275	200,375	(8,127)	64,395
Renting and business activities	–	–	118,493	27,957	900

	June 30, 2014				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged/ (reversal) during the period	Written-off during the period
Wholesale and retail trade	29,289	12,530	322,339	76,834	13,383
Real estate	93,572	23,464	524,333	(37,445)	4,660
Manufacturing	313,263	164,732	328,337	142,420	9,799
Renting and business activities	90,000	28,326	236,123	145,956	–

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(2) Analysed by economic sector (continued)

The Bank

	December 31, 2012				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment (reversal)/ charged during the year	Written-off during the year
Wholesale and retail trade	88,790	84,583	196,023	(10,977)	58,351
Real estate	24,584	17,489	554,999	189,939	2,690
Manufacturing	348,960	212,820	145,519	29,989	22,561
Construction	33,510	25,590	188,529	9,965	6,443

	December 31, 2013				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment (reversal)/ charged during the year	Written-off during the year
Wholesale and retail trade	25,382	20,171	233,161	(27,275)	65,057
Real estate	191,581	28,403	556,623	12,538	1,909
Manufacturing	294,341	150,275	199,633	(8,430)	64,395
Renting and business activities	–	–	118,457	27,921	900

	June 30, 2014				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged/ (reversal) during the period	Written-off during the period
Wholesale and retail trade	12,289	7,717	317,354	71,739	13,383
Real estate	93,572	23,464	524,208	(37,353)	4,660
Manufacturing	313,263	164,732	327,531	142,354	9,799
Renting and business activities	90,000	28,326	236,084	145,952	–

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(3) Analysed by type of collateral

The Group

	December 31,			June 30,
	2011	2012	2013	2014
Unsecured loans	6,976,575	9,845,826	17,088,006	18,288,820
Guaranteed loans	40,664,113	39,719,333	38,779,770	43,416,398
Loans secured by tangible assets other than monetary assets	48,643,834	61,590,538	68,243,738	75,366,526
Loans secured by intangible assets or monetary assets	2,087,903	2,975,121	9,325,296	10,673,517
Gross loans and advances to customers	98,372,425	114,130,818	133,436,810	147,745,261
Less: Provision for impairment losses				
– Individually assessed	(436,140)	(375,424)	(228,496)	(260,915)
– Collectively assessed	(1,173,832)	(1,484,192)	(1,650,422)	(1,961,000)
Total provision for impairment losses	(1,609,972)	(1,859,616)	(1,878,918)	(2,221,915)
Net loans and advances to customers	96,762,453	112,271,202	131,557,892	145,523,346

The Bank

	December 31,			June 30,
	2011	2012	2013	2014
Unsecured loans	6,976,575	9,845,826	17,088,006	18,288,820
Guaranteed loans	40,664,113	39,343,733	38,393,630	42,996,398
Loans secured by tangible assets other than monetary assets	48,643,834	61,487,688	68,119,608	75,239,316
Loans secured by intangible assets or monetary assets	2,087,903	2,975,121	9,324,596	10,672,817
Gross loans and advances to customers	98,372,425	113,652,368	132,925,840	147,197,351
Less: Provision for impairment losses				
– Individually assessed	(436,140)	(375,424)	(225,030)	(256,382)
– Collectively assessed	(1,173,832)	(1,478,495)	(1,640,911)	(1,951,490)
Total provision for impairment losses	(1,609,972)	(1,853,919)	(1,865,941)	(2,207,872)
Net loans and advances to customers	96,762,453	111,798,449	131,059,899	144,989,479

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(4) Overdue loans analysed by overdue period

The Group and the Bank

	December 31, 2011				
	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	2,368	868	1,717	4,675	9,628
Guaranteed loans	58	350	22,996	259,848	283,252
Loans secured by tangible assets other than monetary assets	138,404	146,191	76,712	75,525	436,832
Loans secured by intangible assets or monetary assets	–	–	–	55	55
Total	140,830	147,409	101,425	340,103	729,767
As a percentage of gross loans and advances to customers	0.14%	0.15%	0.10%	0.35%	0.74%

The Group

	December 31, 2012				
	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	2,068	944	1,708	8,599	13,319
Guaranteed loans	130,000	250	4,199	192,310	326,759
Loans secured by tangible assets other than monetary assets	1,075,479	279,753	187,542	106,243	1,649,017
Loans secured by intangible assets or monetary assets	–	–	–	9	9
Total	1,207,547	280,947	193,449	307,161	1,989,104
As a percentage of gross loans and advances to customers	1.05%	0.25%	0.17%	0.27%	1.74%

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(4) Overdue loans analysed by overdue period (continued)

The Group

	December 31, 2013				
	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	2,465	1,706	1,761	17,728	23,660
Guaranteed loans	269,880	4,700	25,162	19,119	318,861
Loans secured by tangible assets other than monetary assets	3,054	94,643	324,719	96,084	518,500
Loans secured by intangible assets or monetary assets	70,000	4,250	–	–	74,250
Total	345,399	105,299	351,642	132,931	935,271
As a percentage of gross loans and advances to customers	0.26%	0.08%	0.26%	0.10%	0.70%

	June 30, 2014				
	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	8,470	2,545	2,198	23,228	36,441
Guaranteed loans	407,830	1,244	4,325	13,330	426,729
Loans secured by tangible assets other than monetary assets	311,518	13,696	272,650	89,791	687,655
Loans secured by intangible assets or monetary assets	–	70,000	–	–	70,000
Total	727,818	87,485	279,173	126,349	1,220,825
As a percentage of gross loans and advances to customers	0.49%	0.06%	0.19%	0.09%	0.83%

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(4) Overdue loans analysed by overdue period (continued)

The Bank

	December 31, 2012				
	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	2,068	944	1,708	8,599	13,319
Guaranteed loans	130,000	250	4,199	192,310	326,759
Loans secured by tangible assets other than monetary assets	1,060,779	279,753	187,542	106,243	1,634,317
Loans secured by intangible assets or monetary assets	–	–	–	9	9
Total	1,192,847	280,947	193,449	307,161	1,974,404
As a percentage of gross loans and advances to customers	1.05%	0.25%	0.17%	0.27%	1.74%

	December 31, 2013				
	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	2,465	1,706	1,761	17,728	23,660
Guaranteed loans	269,880	700	25,162	19,119	314,861
Loans secured by tangible assets other than monetary assets	3,054	94,643	310,019	96,084	503,800
Loans secured by intangible assets or monetary assets	70,000	4,250	–	–	74,250
Total	345,399	101,299	336,942	132,931	916,571
As a percentage of gross loans and advances to customers	0.26%	0.08%	0.25%	0.10%	0.69%

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(4) Overdue loans analysed by overdue period (continued)

The Bank

	June 30, 2014				
	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	8,470	2,545	2,198	23,228	36,441
Guaranteed loans	392,830	1,244	325	13,330	407,729
Loans secured by tangible assets other than monetary assets	311,518	13,696	259,650	89,791	674,655
Loans secured by intangible assets or monetary assets	–	70,000	–	–	70,000
Total	712,818	87,485	262,173	126,349	1,188,825
As a percentage of gross loans and advances to customers	0.48%	0.06%	0.18%	0.09%	0.81%

Overdue loans represent loans, of which the whole or part of the principal or interest were overdue for one day or more.

(5) Loans and advances and provision for impairment losses

The Group and the Bank

	December 31, 2011				
		Impaired loans and advances *(Note (ii))*			
	Loans and advances for which provision are collectively assessed *(Note (i))*	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	97,755,048	28,524	588,853	98,372,425	0.63%
Less: Provision for impairment losses	(1,156,698)	(17,134)	(436,140)	(1,609,972)	
Net loans and advances to customers	96,598,350	11,390	152,713	96,762,453	

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(5) Loans and advances and provision for impairment losses (continued)

The Group

	December 31, 2012				
		Impaired loans and advances *(Note (ii))*			
	Loans and advances for which provision are collectively assessed *(Note (i))*	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.	113,516,231	31,804	582,783	114,130,818	0.54%
Less: Provision for impairment losses . .	(1,460,731)	(23,461)	(375,424)	(1,859,616)	
Net loans and advances to customers.	112,055,500	8,343	207,359	112,271,202	

	December 31, 2013				
		Impaired loans and advances *(Note (ii))*			
	Loans and advances for which provision are collectively assessed *(Note (i))*	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.	132,823,034	41,156	572,620	133,436,810	0.46%
Less: Provision for impairment losses . .	(1,614,987)	(35,435)	(228,496)	(1,878,918)	
Net loans and advances to customers.	131,208,047	5,721	344,124	131,557,892	

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(5) Loans and advances and provision for impairment losses (continued)

The Group

	June 30, 2014				
	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.	147,100,500	48,237	596,524	147,745,261	0.44%
Less: Provision for impairment losses . .	(1,917,483)	(43,517)	(260,915)	(2,221,915)	
Net loans and advances to customers.	145,183,017	4,720	335,609	145,523,346	

The Bank

	December 31, 2012				
	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.	113,037,781	31,804	582,783	113,652,368	0.54%
Less: Provision for impairment losses . .	(1,455,034)	(23,461)	(375,424)	(1,853,919)	
Net loans and advances to customers.	111,582,747	8,343	207,359	111,798,449	

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(5) Loans and advances and provision for impairment losses (continued)

The Bank

	December 31, 2013				
	Loans and advances for which provision are collectively assessed *(Note (i))*	Impaired loans and advances *(Note (ii))*		Total	Gross impaired loans and advances as a percentage of gross loans and advances
		for which provision are collectively assessed	for which provision are individually assessed		
Gross loans and advances to customers	132,329,064	41,156	555,620	132,925,840	0.45%
Less: Provision for impairment losses	(1,605,476)	(35,435)	(225,030)	(1,865,941)	
Net loans and advances to customers	130,723,588	5,721	330,590	131,059,899	

	June 30, 2014				
	Loans and advances for which provision are collectively assessed *(Note (i))*	Impaired loans and advances *(Note (ii))*		Total	Gross impaired loans and advances as a percentage of gross loans and advances
		for which provision are collectively assessed	for which provision are individually assessed		
Gross loans and advances to customers	146,569,590	48,237	579,524	147,197,351	0.43%
Less: Provision for impairment losses	(1,907,973)	(43,517)	(256,382)	(2,207,872)	
Net loans and advances to customers	144,661,617	4,720	323,142	144,989,479	

Notes:

(i) Loans and advances collectively assessed for impairment bear relatively insignificant risk of impairment. 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 and advances which are graded substandard, doubtful or loss).

(iii) The definitions of the loan classifications, stated in Notes (i) and (ii) above, are set out in Note 39(1).

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(6) Movements of provision for impairment losses

The Group and the Bank

	2011			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		
		which are collectively assessed	which are individually assessed	Total
As at January 1	852,725	2,074	396,238	1,251,037
Charge for the year	367,341	15,060	145,837	528,238
Release for the year	(63,368)	–	(19,159)	(82,527)
Unwinding of discount	–	–	(16,638)	(16,638)
Write-offs	–	–	(70,138)	(70,138)
As at December 31	1,156,698	17,134	436,140	1,609,972

The Group

	2012			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		
		which are collectively assessed	which are individually assessed	Total
As at January 1	1,156,698	17,134	436,140	1,609,972
Charge for the year	352,283	6,327	45,191	403,801
Release for the year	(50,714)	–	(1,314)	(52,028)
Unwinding of discount	–	–	(4,730)	(4,730)
Write-offs	–	–	(99,863)	(99,863)
Increase due to acquisition of subsidiaries	2,464	–	–	2,464
As at December 31	1,460,731	23,461	375,424	1,859,616

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(6) Movements of provision for impairment losses (continued)

The Group

	2013			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances which are collectively assessed	Provision for impaired loans and advances which are individually assessed	Total
As at January 1	1,460,731	23,461	375,424	1,859,616
Charge for the year	294,612	11,974	26,049	332,635
Release for the year	(140,356)	–	(5,889)	(146,245)
Unwinding of discount	–	–	(10,499)	(10,499)
Write-offs	–	–	(157,196)	(157,196)
Recoveries	–	–	607	607
As at December 31	1,614,987	35,435	228,496	1,878,918

	Six months ended June 30, 2014			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances which are collectively assessed	Provision for impaired loans and advances which are individually assessed	Total
As at January 1	1,614,987	35,435	228,496	1,878,918
Charge for the period	336,444	8,082	75,317	419,843
Release for the period	(33,948)	–	(271)	(34,219)
Unwinding of discount	–	–	(11,538)	(11,538)
Write-offs	–	–	(31,389)	(31,389)
Recoveries	–	–	300	300
As at June 30	1,917,483	43,517	260,915	2,221,915

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(6) Movements of provision for impairment losses (continued)

The Bank

	2012			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		
		which are collectively assessed	which are individually assessed	Total
As at January 1	1,156,698	17,134	436,140	1,609,972
Charge for the year	349,050	6,327	45,191	400,568
Release for the year	(50,714)	–	(1,314)	(52,028)
Unwinding of discount	–	–	(4,730)	(4,730)
Write-offs	–	–	(99,863)	(99,863)
As at December 31	1,455,034	23,461	375,424	1,853,919

	2013			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		
		which are collectively assessed	which are individually assessed	Total
As at January 1	1,455,034	23,461	375,424	1,853,919
Charge for the year	290,798	11,974	22,583	325,355
Release for the year	(140,356)	–	(5,889)	(146,245)
Unwinding of discount	–	–	(10,499)	(10,499)
Write-offs	–	–	(157,196)	(157,196)
Recoveries	–	–	607	607
As at December 31	1,605,476	35,435	225,030	1,865,941

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(6) Movements of provision for impairment losses (continued)

The Bank

	Six months ended June 30, 2014			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		
		which are collectively assessed	which are individually assessed	Total
As at January 1	1,605,476	35,435	225,030	1,865,941
Charge for the period	336,445	8,082	74,250	418,777
Release for the period	(33,948)	–	(271)	(34,219)
Unwinding of discount	–	–	(11,538)	(11,538)
Write-offs	–	–	(31,389)	(31,389)
Recoveries	–	–	300	300
As at June 30	1,907,973	43,517	256,382	2,207,872

(7) Analysed by geographical sector *(Note (i))*

The Group and the Bank

	December 31, 2011		
	Loans balance	Percentage	Loans and advances secured by collaterals
Northeast China	82,245,137	83%	43,011,834
North China	15,381,938	16%	7,189,553
Others	745,350	1%	530,350
Gross loans and advances to customers	98,372,425	100%	50,731,737

Note:

(i) The definitions of the geographical sectors are set out in Note 38(2).

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(7) Analysed by geographical sector *(Note (i))* **(continued)**

The Group

	December 31, 2012		
	Loans balance	Percentage	Loans and advances secured by collaterals
Northeast China	95,665,649	84%	55,086,852
North China	16,877,215	15%	8,727,953
Others	1,587,954	1%	750,854
Gross loans and advances to customers	114,130,818	100%	64,565,659

	December 31, 2013		
	Loans balance	Percentage	Loans and advances secured by collaterals
Northeast China	111,120,826	83%	66,259,336
North China	20,259,570	15%	9,686,185
Others	2,056,414	2%	1,623,513
Gross loans and advances to customers	133,436,810	100%	77,569,034

	June 30, 2014		
	Loans balance	Percentage	Loans and advances secured by collaterals
Northeast China	118,543,448	80%	70,584,576
North China	23,019,471	16%	10,740,724
Others	6,182,342	4%	4,714,743
Gross loans and advances to customers	147,745,261	100%	86,040,043

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(7) Analysed by geographical sector *(Note (i))* **(continued)**

The Bank

	December 31, 2012		
	Loans balance	Percentage	Loans and advances secured by collaterals
Northeast China	95,383,899	84%	55,061,702
North China	16,877,215	15%	8,727,953
Others	1,391,254	1%	673,154
Gross loans and advances to customers	113,652,368	100%	64,462,809

	December 31, 2013		
	Loans balance	Percentage	Loans and advances secured by collaterals
Northeast China	110,808,356	83%	66,239,006
North China	20,259,570	15%	9,686,185
Others	1,857,914	2%	1,519,013
Gross loans and advances to customers	132,925,840	100%	77,444,204

	June 30, 2014		
	Loans balance	Percentage	Loans and advances secured by collaterals
Northeast China	118,236,438	80%	70,568,566
North China	23,019,471	16%	10,740,724
Others	5,941,442	4%	4,602,843
Gross loans and advances to customers	147,197,351	100%	85,912,133

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(7) Analysed by geographical sector *(Note (i))* **(continued)**

As at the end of each of the Relevant Periods, detailed information of the impaired loans and advances to customers as well as the corresponding impairment provision in respect of each geographic sector which constitutes 10% or more of gross loans and advances to customers is as follows:

The Group and the Bank

	December 31, 2011		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Northeast China	617,377	436,140	1,015,725
North China	–	–	147,687

The Group

	December 31, 2012		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Northeast China	614,587	375,424	1,299,059
North China	–	–	161,820

	December 31, 2013		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Northeast China	596,776	225,030	1,455,555
North China	–	–	163,888

	June 30, 2014		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Northeast China	627,761	256,383	1,624,047
North China	–	–	238,051

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(7) Analysed by geographical sector *(Note (i))* **(continued)**

The Bank

	December 31, 2012		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Northeast China	614,587	375,424	1,295,896
North China	–	–	161,820

	December 31, 2013		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Northeast China	596,776	225,030	1,452,461
North China	–	–	163,888

	June 30, 2014		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Northeast China	627,761	256,383	1,619,918
North China	–	–	238,051

20 FINANCIAL INVESTMENTS

The Group and the Bank

		December 31,			June 30,
	Note	2011	2012	2013	2014
Available-for-sale financial assets	*20(1)*	18,665,194	22,656,211	13,069,779	19,403,759
Held-to-maturity investments	*20(2)*	28,717,789	28,050,055	35,399,657	41,519,756
Loans and receivables	*20(3)*	2,139,447	15,964,624	25,312,589	55,680,102
Total		49,522,430	66,670,890	73,782,025	116,603,617

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

20 FINANCIAL INVESTMENTS (continued)

(1) Available-for-sale financial assets

The Group and the Bank

	December 31,			June 30,
	2011	2012	2013	2014
Debt securities at fair value listed outside Hong Kong				
– Government	5,657,913	3,162,906	4,884,066	5,155,263
– The PBOC	197,847	99,924	–	–
– Policy banks	11,201,119	18,921,329	7,779,643	13,392,160
– Banks and other financial institutions	123,612	295,914	290,670	197,155
– Corporate	–	–	–	383,256
Sub-total	17,180,491	22,480,073	12,954,379	19,127,834
Investment management products under trust scheme at fair value				
– Unlisted	1,310,565	–	–	–
Equity investment at cost *(Note (i))*				
– Unlisted	174,138	176,138	115,400	275,925
Total	18,665,194	22,656,211	13,069,779	19,403,759

The Bank reclassified debt securities amounting to RMB5.68 billion out of available-for-sale to held-to-maturity investments during the year ended December 31, 2013, and as at the reclassification date, the estimated amount of cash flows the Group expected to recover was RMB7.01 billion. As at December 31, 2013, the carrying amount of the above debt securities was RMB5.69 billion, and the fair value was RMB5.31 billion. The Group has recognised a fair value gain of RMB0.92 million in other comprehensive income during the year. Except for the above, the Group and the Bank did not reclassify any other financial investments in and out from available-for-sale category for each of the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014.

Note:

(i) Certain available-for-sale unlisted equity investments which do not have any quoted market prices and whose fair values cannot be measured reliably are stated at cost less any impairment losses. There is no active market for these investments and it is the Group's intention to dispose of them as opportunities arise.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

20 FINANCIAL INVESTMENTS (continued)

(2) Held-to-maturity investments

The Group and the Bank

	December 31,			June 30,
	2011	2012	2013	2014
Listed outside Hong Kong				
– Government	13,549,221	13,320,393	12,580,780	12,516,651
– The PBOC	2,594,786	2,598,243	–	–
– Policy banks	11,773,714	10,966,452	20,802,677	27,286,409
– Banks and other financial institutions	800,068	1,164,967	1,096,232	796,727
– Corporate	–	–	919,968	919,969
Total	28,717,789	28,050,055	35,399,657	41,519,756
Fair value of listed securities	28,769,479	27,867,332	33,295,711	40,521,063

(3) Loans and receivables

The Group and the Bank

	December 31,			June 30,
	2011	2012	2013	2014
Investment management products managed by securities companies	–	–	12,639,819	40,900,426
Investment management products under trust scheme	503,727	15,134,624	11,742,770	13,849,676
Debt securities	20,000	–	600,000	600,000
Wealth management products issued by financial institutions	1,615,720	830,000	330,000	330,000
Total	2,139,447	15,964,624	25,312,589	55,680,102

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

21 INVESTMENTS IN SUBSIDIARIES

The Bank

	December 31,			June 30,
	2011	2012	2013	2014
Shenyang Shenbei Fumin Village Bank Co., Ltd. ("Shenyang Shenbei")	–	35,321	35,321	35,321
Shenyang Xinmin Fumin Village Bank Co., Ltd. ("Shenyang Xinmin")	–	6,230	6,230	6,230
Shenyang Liaozhong Fumin Village Bank Co., Ltd. ("Shenyang Liaozhong")	–	6,262	6,262	6,262
Shenyang Faku Fumin Village Bank Co., Ltd. ("Shenyang Faku")	–	6,097	6,097	6,097
Ningbo Jiangbei Fumin Rural Bank Co., Ltd. ("Ningbo Jiangbei")	–	30,039	30,039	62,208
Shanghai Baoshan Fumin Rural Bank Co., Ltd. ("Shanghai Baoshan")	–	62,208	62,208	30,039
Total	–	146,157	146,157	146,157

As at June 30, 2014, background of the subsidiaries is as follows:

	Notes	Date of incorporation	Place of incorporation, registration and operations	Registered capital	Percentage owned by the Bank	Business sector
Shenyang Shenbei	*21(1)*	09/02/2009	Liaoning, China	150,000	20%	Banking
Shenyang Xinmin	*21(2)*	25/06/2010	Liaoning, China	30,000	20%	Banking
Shenyang Liaozhong	*21(3)*	26/11/2010	Liaoning, China	30,000	20%	Banking
Shenyang Faku	*21(4)*	26/10/2010	Liaoning, China	30,000	20%	Banking
Ningbo Jiangbei	*21(5)*	17/08/2011	Zhejiang, China	100,000	30%	Banking
Shanghai Baoshan	*21(6)*	09/09/2011	Shanghai, China	150,000	40%	Banking

Notes:

(1) According to the revised Articles of Association of Shenyang Shenbei approved by the General Meetings held in June 2012, the financial and operational decisions of Shenyang Shenbei were made by the Bank. The Bank also agreed with seven shareholders who held in total 61.34% of ownership and voting power of Shenyang Shenbei that these seven shareholders would follow the vote of the Bank on all key decision making including but not limited to financial and operational decisions from June 2012. Hence, the Bank had control over Shenyang Shenbei and reclassified its investment in Shenyang Shenbei from interest in associates to investments in subsidiaries in June 2012. The financial statements of Shenyang Shenbei for the years ended December 31, 2012 and 2013 were audited by Pan-China Certified Public Accountants LLP.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

21 INVESTMENTS IN SUBSIDIARIES (continued)

Notes (continued):

(2) According to the revised Articles of Association of Shenyang Xinmin approved by the General Meetings held in June 2012, the financial and operational decisions of Shenyang Xinmin were made by the Bank. The Bank also agreed with eight shareholders who held in total 55% of ownership and voting power of Shenyang Xinmin that these eight shareholders would follow the vote of the Bank on all key decision making including but not limited to financial and operational decisions from June 2012. Hence, the Bank had control over Shenyang Xinmin and reclassified its investment in Shenyang Xinmin from interest in associates to investments in subsidiaries in June 2012. The financial statements of Shenyang Xinmin for the years ended December 31, 2012 and 2013 were audited by Pan-China Certified Public Accountants LLP.

(3) According to the revised Articles of Association of Shenyang Liaozhong approved by the General Meetings held in June 2012, the financial and operational decisions of Shenyang Liaozhong were made by the Bank. The Bank also agreed with eleven shareholders who held in total 70% of ownership and voting power of Shenyang Liaozhong that these eleven shareholders would follow the vote of the Bank on all key decision making including but not limited to financial and operational decisions from June 2012. Hence, the Bank had control over Shenyang Liaozhong and reclassified its investment in Shenyang Liaozhong from interest in associates to investments in subsidiaries in June 2012. The financial statements of Shenyang Liaozhong for the years ended December 31, 2012 and 2013 were audited by Pan-China Certified Public Accountants LLP.

(4) According to the revised Articles of Association of Shenyang Faku approved by the General Meetings held in June 2012, the financial and operational decisions of Shenyang Shenyang Faku were made by the Bank. The Bank also agreed with seven shareholders who held in total 50% of ownership and voting power of Shenyang Faku that these seven shareholders would follow the vote of the Bank on all key decision making including but not limited to financial and operational decisions from June 2012. Hence, the Bank had control over Shenyang Faku and reclassified its investment in Shenyang Faku from interest in associates to investments in subsidiaries in June 2012. The financial statements of Shenyang Faku for the years ended December 31, 2012 and 2013 were audited by Pan-China Certified Public Accountants LLP.

(5) According to the revised Articles of Association of Ningbo Jiangbei approved by the General Meetings held in June 2012, the financial and operational decisions of Ningbo Jiangbei were made by the Bank. The Bank also agreed with six shareholders who held in total 50% of ownership and voting power of Ningbo Jiangbei that these six shareholders would follow the vote of the Bank on all key decision making including but not limited to financial and operational decisions from June 2012. Hence, the Bank had control over Ningbo Jiangbei and reclassified its investment in Ningbo Jiangbei from interest in associates to investments in subsidiaries in June 2012. The financial statements of Ningbo Jiangbei for the years ended December 31, 2012 and 2013 were audited by Pan-China Certified Public Accountants LLP.

(6) According to the revised Articles of Association of Shanghai Baoshan approved by the General Meetings held in June 2012, the financial and operational decisions of Shanghai Baoshan were made by the Bank. The Bank also agreed with four shareholders who held in total 35.33% of ownership and voting power of Shanghai Baoshan that these four shareholders would follow the vote of the Bank on all key decision making including but not limited to financial and operational decisions from June 2012. Hence, the Bank had control over Shanghai Baoshan and reclassified its investment in Shanghai Baoshan from interest in associates to investments in subsidiaries in June 2012. The financial statements of Shanghai Baoshan for the years ended December 31, 2012 and 2013 were audited by Pan-China Certified Public Accountants LLP.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

22 INTEREST IN ASSOCIATES

The Group and the Bank

	December 31,			June 30,
	2011	2012	2013	2014
Interest in associates	389,819	267,456	287,175	–
Total	389,819	267,456	287,175	–

The following list contains the Group's associates, all of which are individually immaterial to the Group and are unlisted corporate entities whose quoted market price is not available:

Name	Percentages of equity/voting rights				Place of incorporation/ registration	Business sector
	2011-12-31	2012-12-31	2013-12-31	2014-06-30		
	%	%	%	%		
Benxi City Commercial Bank Co., Ltd.	39.02%	39.02%	39.02%	*Note 22(1)*	Liaoning, China	Banking
Shenyang Shenbei	20.00%	*Note 21(1)*	*Note 21(1)*	*Note 21(1)*	Liaoning, China	Banking
Shenyang Xinmin	20.00%	*Note 21(2)*	*Note 21(2)*	*Note 21(2)*	Liaoning, China	Banking
Shenyang Liaozhong	20.00%	*Note 21(3)*	*Note 21(3)*	*Note 21(3)*	Liaoning, China	Banking
Shenyang Faku	20.00%	*Note 21(4)*	*Note 21(4)*	*Note 21(4)*	Liaoning, China	Banking
Ningbo Jiangbei	30.00%	*Note 21(5)*	*Note 21(5)*	*Note 21(5)*	Zhejiang, China	Banking
Shanghai Baoshan	40.00%	*Note 21(6)*	*Note 21(6)*	*Note 21(6)*	Shanghai, China	Banking

(1) In January 2014, Benxi City Commercial Bank Co., Ltd. ("Benxi Bank") increased its registered capital and thus the Bank's equity interest in Benxi Bank was diluted from 39.02% to 11.88%. Benxi Bank also restructured its board of directors and appointed certain new management. As a result of the above, the Bank lost its significant influence over Benxi Bank. A loss resulted from the above changes amounting to RMB127 million was recognised as net (losses)/gains arising from investments during the six months ended June 30, 2014. The Bank reclassified its investment in Benxi Bank to available-to-sale financial assets in January 2014 accordingly.

(2) The following tables illustrate the aggregate information of the Group's associates that are not individually material:

	December 31,			June 30,
	2011	2012	2013	2014
Aggregate carrying amount of individually immaterial associates in the consolidated statements of financial position of the Group	389,819	267,456	287,175	–
Aggregate amounts of the Group's share of results of those associates				
– Profit from continuing operations	34,411	23,795	19,719	2,338
– Other comprehensive income	–	–	–	–
– Total comprehensive income	34,411	23,795	19,719	2,338

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

23 PROPERTY AND EQUIPMENT

The Group

	Premises	Leasehold improvement	CIP	Office equipment	Others	Total
Cost						
As at January 1, 2011	2,549,268	187,905	103,047	271,890	65,705	3,177,815
Additions	134,431	67,406	61,382	36,243	11,685	311,147
CIP transfers	457	1,279	(3,272)	1,536	–	–
Disposals	(157,265)	–	–	(93,437)	(23,318)	(274,020)
As at December 31, 2011	2,526,891	256,590	161,157	216,232	54,072	3,214,942
Additions	10,759	36,985	104,880	42,720	23,796	219,140
Increase due to acquisition of subsidiaries	–	7,565	–	3,211	1,092	11,868
CIP transfers	–	34,188	(34,188)	–	–	–
Disposals	(64)	–	–	(106)	–	(170)
As at December 31, 2012	2,537,586	335,328	231,849	262,057	78,960	3,445,780
Additions	7,928	28,008	286,338	76,995	7,566	406,835
CIP transfers	27,884	50,543	(78,427)	–	–	–
Disposals	(113,692)	–	–	–	–	(113,692)
As at December 31, 2013	2,459,706	413,879	439,760	339,052	86,526	3,738,923
Additions	241,337	6,199	345,403	18,185	809	611,933
CIP transfers	112,518	–	(112,518)	–	–	–
Disposals	–	–	–	(2)	–	(2)
As at June 30, 2014	2,813,561	420,078	672,645	357,235	87,335	4,350,854

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

23 PROPERTY AND EQUIPMENT (continued)

The Group

	Premises	Leasehold improvement	CIP	Office equipment	Others	Total
Accumulated depreciation						
As at January 1, 2011	(400,150)	(128,186)	–	(152,248)	(49,118)	(729,702)
Additions	(125,007)	(26,253)	–	(51,538)	(5,818)	(208,616)
Disposals	10,805	–	–	90,433	22,813	124,051
As at December 31, 2011	(514,352)	(154,439)	–	(113,353)	(32,123)	(814,267)
Additions	(123,959)	(25,216)	–	(50,563)	(9,751)	(209,489)
Increase due to acquisition of subsidiaries	–	(3,907)		(449)	(157)	(4,513)
Disposals	56	–	–	103	–	159
As at December 31, 2012	(638,255)	(183,562)	–	(164,262)	(42,031)	(1,028,110)
Additions	(126,396)	(34,295)	–	(43,415)	(12,711)	(216,817)
Disposals	28,465	–	–	–	–	28,465
As at December 31, 2013	(736,186)	(217,857)	–	(207,677)	(54,742)	(1,216,462)
Additions	(67,750)	(24,697)	–	(26,161)	(6,377)	(124,985)
As at June 30, 2014	(803,936)	(242,554)	–	(233,838)	(61,119)	(1,341,447)
Net book value						
As at December 31, 2011	2,012,539	102,151	161,157	102,879	21,949	2,400,675
As at December 31, 2012	1,899,331	151,766	231,849	97,795	36,929	2,417,670
As at December 31, 2013	1,723,520	196,022	439,760	131,375	31,784	2,522,461
As at June 30, 2014	2,009,625	177,524	672,645	123,397	26,216	3,009,407

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

23 PROPERTY AND EQUIPMENT (continued)

The Bank

	Premises	Leasehold improvement	CIP	Office equipment	Others	Total
Cost						
As at January 1, 2011	2,549,268	187,905	103,047	271,890	65,705	3,177,815
Additions	134,431	67,406	61,382	36,243	11,685	311,147
CIP transfers	457	1,279	(3,272)	1,536	–	–
Disposals	(157,265)	–	–	(93,437)	(23,318)	(274,020)
As at December 31, 2011	2,526,891	256,590	161,157	216,232	54,072	3,214,942
Additions	10,759	36,985	104,880	41,819	21,610	216,053
CIP transfers	–	34,188	(34,188)	–	–	–
Disposals	(64)	–	–	(106)	–	(170)
As at December 31, 2012	2,537,586	327,763	231,849	257,945	75,682	3,430,825
Additions	7,928	28,008	278,959	76,937	6,936	398,768
CIP transfers	27,884	50,543	(78,427)	–	–	–
Disposals	(113,692)	–	–	–	–	(113,692)
As at December 31, 2013	2,459,706	406,314	432,381	334,882	82,618	3,715,901
Additions	241,337	6,199	345,403	18,084	809	611,832
CIP transfers	112,518	–	(112,518)	–	–	–
Disposals	–	–	–	(2)	–	(2)
As at June 30, 2014	2,813,561	412,513	665,266	352,964	83,427	4,327,731
Accumulated depreciation						
As at January 1, 2011	(400,150)	(128,186)	–	(152,248)	(49,118)	(729,702)
Additions	(125,007)	(26,253)	–	(51,538)	(5,818)	(208,616)
Disposals	10,805	–	–	90,433	22,813	124,051
As at December 31, 2011	(514,352)	(154,439)	–	(113,353)	(32,123)	(814,267)
Additions	(123,959)	(24,652)	–	(49,669)	(8,273)	(206,553)
Disposals	56	–	–	103	–	159
As at December 31, 2012	(638,255)	(179,091)	–	(162,919)	(40,396)	(1,020,661)
Additions	(126,396)	(33,330)	–	(42,336)	(11,819)	(213,881)
Disposals	28,465	–	–	–	–	28,465
As at December 31, 2013	(736,186)	(212,421)	–	(205,255)	(52,215)	(1,206,077)
Additions	(67,750)	(24,214)	–	(25,634)	(5,919)	(123,517)
As at June 30, 2014	(803,936)	(236,635)	–	(230,889)	(58,134)	(1,329,594)

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

23 PROPERTY AND EQUIPMENT (continued)

The Bank

	Premises	Leasehold improvement	CIP	Office equipment	Others	Total
Net book value						
As at December 31, 2011	2,012,539	102,151	161,157	102,879	21,949	2,400,675
As at December 31, 2012	1,899,331	148,672	231,849	95,026	35,286	2,410,164
As at December 31, 2013	1,723,520	193,893	432,381	129,627	30,403	2,509,824
As at June 30, 2014	2,009,625	175,878	665,266	122,075	25,293	2,998,137

The carrying amount of premises without title deeds as at December 31, 2011, 2012 and 2013, and June 30, 2014 was RMB736.03 million, RMB689.76 million, RMB619.95 million and RMB348.70 million, respectively. The Group is still in the progress of application for the outstanding title deeds for the above premises. Management of the Group expected that there would be no significant cost in obtaining the title deeds.

The net book values of premises at the end of each of the Relevant Periods are analysed by the remaining terms of the land leases as follows:

The Group and the Bank

	December 31,			June 30,
	2011	2012	2013	2014
Held in mainland China				
– Long term leases (over 50 years)	3,586	3,465	2,836	73,446
– Medium term leases (10-50 years)	1,991,408	1,879,264	1,705,024	1,832,562
– Short term leases (less than 10 years)	17,545	16,602	15,660	103,617
Total	2,012,539	1,899,331	1,723,520	2,009,625

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

24 DEFERRED INCOME TAX ASSETS AND LIABILITIES

(1) Analysed by nature

The Group

	December 31,						June 30,	
	2011		2012		2013		2014	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets:								
Allowance for impairment losses	312,702	78,176	588,666	147,166	489,116	122,279	687,702	171,926
Change in fair value of available-for-sale financial assets	–	–	–	–	335,378	83,844	–	–
Change in fair value of held for trading financial assets	–	–	428	107	–	–	–	–
Salaries, bonuses and allowances payables	3,387	847	–	–	–	–	–	–
Supplementary retirement benefits	165,719	41,429	149,683	37,421	128,364	32,091	130,910	32,728
	481,808	120,452	738,777	184,694	952,858	238,214	818,612	204,654
Deferred income tax liabilities:								
Change in fair value of available-for-sale financial assets	(329,462)	(82,366)	(36,591)	(9,148)	–	–	(181,074)	(45,269)
Change in fair value of held for trading financial assets	(3,437)	(859)	–	–	–	–	–	–
	(332,899)	(83,225)	(36,591)	(9,148)	–	–	(181,074)	(45,269)
Net deferred income tax	148,909	37,227	702,186	175,546	952,858	238,214	637,538	159,385

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

24 DEFERRED INCOME TAX ASSETS AND LIABILITIES (continued)

(1) Analysed by nature (continued)

The Bank

	December 31,						June 30,	
	2011		2012		2013		2014	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets:								
Allowance for impairment losses	312,702	78,176	588,341	147,085	481,436	120,359	679,308	169,827
Change in fair value of available-for-sale financial assets	–	–	–	–	335,378	83,844	–	–
Change in fair value of held for trading financial assets	–	–	428	107	–	–	–	–
Salaries, bonuses and allowances payables	3,387	847	–	–	–	–	–	–
Supplementary retirement benefits	165,719	41,429	149,683	37,421	128,364	32,091	130,910	32,728
	481,808	120,452	738,452	184,613	945,178	236,294	810,218	202,555
Deferred income tax liabilities:								
Change in fair value of available-for-sale financial assets	(329,462)	(82,366)	(36,591)	(9,148)	–	–	(181,074)	(45,269)
Change in fair value of held for trading financial assets	(3,437)	(859)	–	–	–	–	–	–
	(332,899)	(83,225)	(36,591)	(9,148)	–	–	(181,074)	(45,269)
Net deferred income tax	148,909	37,227	701,861	175,465	945,178	236,294	629,144	157,286

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

24 DEFERRED INCOME TAX ASSETS AND LIABILITIES (continued)

(2) Analysed by movement

The Group and the Bank

	At January 1, 2011	Recognised in profit or loss	Recognised in other comprehensive income	At December 31, 2011
Deferred income tax assets:				
Allowance for impairment losses	14,396	63,780	–	78,176
Salaries, bonuses and allowances payables	847	–	–	847
Supplementary retirement benefits	43,430	(2,325)	324	41,429
Sub-total	58,673	61,455	324	120,452
Deferred income tax liabilities:				
Change in fair value of available-for-sale financial assets	2,476	–	(84,842)	(82,366)
Change in fair value of held for trading financial assets	(427)	(432)	–	(859)
Sub-total	2,049	(432)	(84,842)	(83,225)
Net deferred income tax	60,722	61,023	(84,518)	37,227

The Group

	At January 1, 2012	Recognised in profit or loss	Recognised in other comprehensive income	At December 31, 2012
Deferred income tax assets:				
Allowance for impairment losses	78,176	68,990	–	147,166
Change in fair value of held for trading financial assets	–	107	–	107
Salaries, bonuses and allowances payables	847	(847)	–	–
Supplementary retirement benefits	41,429	(3,670)	(338)	37,421
Sub-total	120,452	64,580	(338)	184,694
Deferred income tax liabilities:				
Change in fair value of available-for-sale financial assets	(82,366)	–	73,218	(9,148)
Change in fair value of held for trading financial assets	(859)	859	–	–
Sub-total	(83,225)	859	73,218	(9,148)
Net deferred income tax	37,227	65,439	72,880	175,546

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

24 DEFERRED INCOME TAX ASSETS AND LIABILITIES (continued)

(2) Analysed by movement (continued)

The Group

	At January 1, 2013	Recognised in profit or loss	Recognised in other comprehensive income	At December 31, 2013
Deferred income tax assets:				
Allowance for impairment losses	147,166	(24,887)	–	122,279
Change in fair value of available-for-sale financial assets	–	–	83,844	83,844
Change in fair value of held for trading financial assets	107	(107)	–	–
Supplementary retirement benefits	37,421	(4,400)	(930)	32,091
Sub-total	184,694	(29,394)	82,914	238,214
Deferred income tax liabilities:				
Change in fair value of available-for-sale financial assets	(9,148)	–	9,148	–
Sub-total	(9,148)	–	9,148	–
Net deferred income tax	175,546	(29,394)	92,062	238,214

	At January 1, 2014	Recognised in profit or loss	Recognised in other comprehensive income	At June 30, 2014
Deferred income tax assets:				
Allowance for impairment losses	122,279	49,647	–	171,926
Change in fair value of available-for-sale financial assets	83,844	–	(83,844)	–
Supplementary retirement benefits	32,091	25	612	32,728
Sub-total	238,214	49,672	(83,232)	204,654
Deferred income tax liabilities:				
Change in fair value of available-for-sale financial assets	–	–	(45,269)	(45,269)
Sub-total	–	–	(45,269)	(45,269)
Net deferred income tax	238,214	49,672	(128,501)	159,385

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

24 DEFERRED INCOME TAX ASSETS AND LIABILITIES (continued)

(2) Analysed by movement (continued)

The Bank

	At January 1, 2012	Recognised in profit or loss	Recognised in other comprehensive income	At December 31, 2012
Deferred income tax assets:				
Allowance for impairment losses	78,176	68,909	–	147,085
Change in fair value of held for trading financial assets	–	107	–	107
Salaries, bonuses and allowances payables	847	(847)	–	–
Supplementary retirement benefits	41,429	(3,670)	(338)	37,421
Sub-total	120,452	64,499	(338)	184,613
Deferred income tax liabilities:				
Change in fair value of available-for-sale financial assets	(82,366)	–	73,218	(9,148)
Change in fair value of held for trading financial assets	(859)	859	–	–
Sub-total	(83,225)	859	73,218	(9,148)
Net deferred income tax	37,227	65,358	72,880	175,465

	At January 1, 2013	Recognised in profit or loss	Recognised in other comprehensive income	At December 31, 2013
Deferred income tax assets:				
Allowance for impairment losses	147,085	(26,726)	–	120,359
Change in fair value of available-for-sale financial assets	–	–	83,844	83,844
Change in fair value of held for trading financial assets	107	(107)	–	–
Supplementary retirement benefits	37,421	(4,400)	(930)	32,091
Sub-total	184,613	(31,233)	82,914	236,294
Deferred income tax liabilities:				
Change in fair value of available-for-sale financial assets	(9,148)	–	9,148	–
Sub-total	(9,148)	–	9,148	–
Net deferred income tax	175,465	(31,233)	92,062	236,294

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

24 DEFERRED INCOME TAX ASSETS AND LIABILITIES (continued)

(2) Analysed by movement (continued)

The Bank

	At January 1, 2014	Recognised in profit or loss	Recognised in other comprehensive income	At June 30, 2014
Deferred income tax assets:				
Allowance for impairment losses	120,359	49,468	–	169,827
Change in fair value of available-for-sale financial assets	83,844	–	(83,844)	–
Supplemental retirement benefits	32,091	25	612	32,728
Sub-total	236,294	49,493	(83,232)	202,555
Deferred income tax liabilities:				
Change in fair value of available-for-sale financial assets	–	–	(45,269)	(45,269)
Sub-total	–	–	(45,269)	(45,269)
Net deferred income tax	236,294	49,493	(128,501)	157,286

25 OTHER ASSETS

The Group

		December 31,			June 30,
	Note	2011	2012	2013	2014
Interest receivable	*25(1)*	1,030,803	1,380,990	2,171,792	3,939,626
Repossessed assets	*25(2)*	586,942	576,680	491,342	–
Settlement and clearing accounts		32,755	66,315	235,724	260,192
Prepayments		29,321	31,761	28,769	144,067
Intangible assets	*25(3)*	19,437	24,547	38,731	36,654
Long-term deferred expense		20,186	16,627	14,624	13,347
Land use rights		4,761	4,397	4,034	7,217
Others	*25(4)*	1,410,382	1,137,978	820,782	724,267
Total		3,134,587	3,239,295	3,805,798	5,125,370

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

25 OTHER ASSETS (continued)

The Bank

		December 31,			June 30,
	Note	**2011**	**2012**	**2013**	**2014**
Interest receivable	*25(1)*	1,030,803	1,378,858	2,169,556	3,936,807
Repossessed assets	*25(2)*	586,942	576,680	491,342	–
Settlement and clearing accounts		32,755	66,315	235,724	260,192
Prepayments		29,321	31,761	28,769	144,067
Intangible assets	*25(3)*	19,437	24,444	38,570	36,519
Long-term deferred expense		20,186	16,306	14,303	13,301
Land use rights		4,761	4,397	4,034	7,217
Others	*25(4)*	1,410,382	1,137,846	820,333	723,692
Total		3,134,587	3,236,607	3,802,631	5,121,795

(1) Interest receivable

The Group

	December 31,			June 30,
	2011	**2012**	**2013**	**2014**
Interest receivable arising from:				
– Deposits with banks and other financial institutions	128,852	254,365	561,110	1,962,209
– Loans and advances to customers	269,546	349,437	375,167	402,465
– Investments	632,002	774,455	1,203,963	1,539,457
– Others	403	2,733	31,552	35,495
Total	1,030,803	1,380,990	2,171,792	3,939,626

The Bank

	December 31,			June 30,
	2011	**2012**	**2013**	**2014**
Interest receivable arising from:				
– Deposits with banks and other financial institutions	128,852	254,337	560,659	1,961,021
– Loans and advances to customers	269,546	347,333	373,382	400,834
– Investments	632,002	774,455	1,203,963	1,539,457
– Others	403	2,733	31,552	35,495
Total	1,030,803	1,378,858	2,169,556	3,936,807

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

25 OTHER ASSETS (continued)

(2) Repossessed assets

The Group and the Bank

	December 31,			June 30,
	2011	2012	2013	2014
Land use rights and buildings	578,104	569,921	487,486	–
Others	20,966	18,966	18,966	–
Sub-total	599,070	588,887	506,452	–
Less: Impairment allowance	(12,128)	(12,207)	(15,110)	–
	586,942	576,680	491,342	–

(3) Intangible assets

The Group

	Years ended December 31,			Six months ended June 30,
	2011	2012	2013	2014
Cost				
As at January 1	50,052	54,633	65,355	85,225
Additions	4,581	10,643	19,870	1,442
Increase due to acquisition of subsidiaries	–	79	–	–
As at December 31/June 30	54,633	65,355	85,225	86,667
Accumulated amortisation				
As at January 1	(28,433)	(35,196)	(40,808)	(46,494)
Additions	(6,763)	(5,581)	(5,686)	(3,519)
Increase due to acquisition of subsidiaries	–	(31)	–	–
As at December 31/June 30	(35,196)	(40,808)	(46,494)	(50,013)
Net value				
As at January 1	21,619	19,437	24,547	38,731
As at December 31/June 30	19,437	24,547	38,731	36,654

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

25 OTHER ASSETS (continued)

(3) Intangible assets (continued)

The Bank

	Years ended December 31,			Six months ended June 30,
	2011	2012	2013	2014
Cost				
As at January 1	50,052	54,633	65,196	84,966
Additions	4,581	10,563	19,770	1,442
As at December 31/June 30	54,633	65,196	84,966	86,408
Accumulated amortisation				
As at January 1	(28,433)	(35,196)	(40,752)	(46,396)
Additions	(6,763)	(5,556)	(5,644)	(3,493)
As at December 31/June 30	(35,196)	(40,752)	(46,396)	(49,889)
Net value				
As at January 1	21,619	19,437	24,444	38,570
As at December 31/June 30	19,437	24,444	38,570	36,519

Intangible assets of the Group mainly represent computer software.

(4) Others

The Group

	December 31,			June 30,
	2011	2012	2013	2014
Receivable due from disposal of non-performing assets *(Note (i))*	1,183,723	995,106	833,084	756,124
Receivable due from tax refund	188,237	188,237	16,843	7,305
Others	49,135	47,471	47,500	36,061
Sub-total	1,421,095	1,230,814	897,427	799,490
Less: Impairment allowance	(10,713)	(92,836)	(76,645)	(75,223)
	1,410,382	1,137,978	820,782	724,267

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

25 OTHER ASSETS (continued)

(4) Others (continued)

The Bank

	December 31,			June 30,
	2011	2012	2013	2014
Receivable due from disposal of non-performing assets *(Note (i))*	1,183,723	995,106	833,084	756,124
Receivable due from tax refund	188,237	188,237	16,843	7,305
Others	49,135	47,339	47,051	35,486
Sub-total	1,421,095	1,230,682	896,978	798,915
Less: Impairment allowance	(10,713)	(92,836)	(76,645)	(75,223)
	1,410,382	1,137,846	820,333	723,692

Note:

(i) It represents a receivable from Shenyang City Infrastructure Construction Investment Development Co., Ltd. and the receivable is guaranteed by one of the Bank's shareholder, Shenyang Hengxin State-owned Asset Management Group Co., Ltd.

26 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

The Group

	December 31,			June 30,
	2011	2012	2013	2014
Deposits in mainland China				
– Banks	13,060,713	37,441,423	40,759,160	67,404,331
– Other financial institutions	77,750	1,112,190	568,337	1,411,395
Total	13,138,463	38,553,613	41,327,497	68,815,726

The Bank

	December 31,			June 30,
	2011	2012	2013	2014
Deposits in mainland China				
– Banks	13,060,713	37,742,682	40,801,763	67,454,773
– Other financial institutions	77,750	1,112,190	568,337	1,411,395
Total	13,138,463	38,854,872	41,370,100	68,866,168

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

27 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

The Group and the Bank

	December 31,			June 30,
	2011	2012	2013	2014
Placements in mainland China				
– Banks	1,560,407	5,620,136	1,189,968	1,716,631
Total	1,560,407	5,620,136	1,189,968	1,716,631

28 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(1) Analysed by type and location of counterparty

The Group and the Bank

	December 31,			June 30,
	2011	2012	2013	2014
In mainland China				
– Banks	18,067,757	40,773,450	19,115,218	45,191,320
– Other financial institutions	1,074,750	–	1,804,250	200,000
Total	19,142,507	40,773,450	20,919,468	45,391,320

(2) Analysed by type of security held

The Group and the Bank

	December 31,			June 30,
	2011	2012	2013	2014
Debt securities sold under repurchase agreements	19,048,450	40,773,450	20,919,468	45,391,320
Bills sold under repurchase agreements	94,057	–	–	–
Total	19,142,507	40,773,450	20,919,468	45,391,320

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

29 DEPOSITS FROM CUSTOMERS

The Group

	December 31,			June 30,
	2011	2012	2013	2014
Demand deposits				
– Corporate deposits	73,555,934	72,330,936	76,536,370	71,956,191
– Personal deposits	10,713,195	10,464,144	11,233,720	12,435,037
Sub-total	84,269,129	82,795,080	87,770,090	84,391,228
Time deposits				
– Corporate deposits	33,620,438	53,950,327	91,620,903	112,948,758
– Personal deposits	37,076,465	51,457,495	64,487,813	72,387,077
Sub-total	70,696,903	105,407,822	156,108,716	185,335,835
Pledged deposits				
– Acceptances	15,688,350	18,822,792	17,469,564	24,162,075
– Letters of credit	121,563	246,555	332,611	662,407
– Letters of guarantees	16,152	73,600	741,951	422,209
– Others	262,399	367,687	270,286	614,274
Sub-total	16,088,464	19,510,634	18,814,412	25,860,965
Inward and outward remittances	419,995	273,691	219,510	345,597
Total deposits from customers at amortised cost	171,474,491	207,987,227	262,912,728	295,933,625

The Bank

	December 31,			June 30,
	2011	2012	2013	2014
Demand deposits				
– Corporate deposits	73,555,934	72,098,013	76,297,569	71,756,112
– Personal deposits	10,713,195	10,442,672	11,208,872	12,411,873
Sub-total	84,269,129	82,540,685	87,506,441	84,167,985
Time deposits				
– Corporate deposits	33,620,438	53,928,326	91,606,862	112,942,016
– Personal deposits	37,076,465	51,424,666	64,441,238	72,325,368
Sub-total	70,696,903	105,352,992	156,048,100	185,267,384
Pledged deposits				
– Acceptances	15,688,350	18,822,792	17,469,564	24,162,075
– Letters of credit	121,563	246,555	332,611	662,407
– Letters of guarantees	16,152	71,000	741,450	421,707
– Others	262,399	367,687	270,286	614,274
Sub-total	16,088,464	19,508,034	18,813,911	25,860,463
Inward and outward remittances	419,995	273,691	219,510	345,597
Total deposits from customers at amortised cost	171,474,491	207,675,402	262,587,962	295,641,429

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

30 DEBT SECURITIES ISSUED

The Group and the Bank

		December 31,			June 30,
	Note	**2011**	**2012**	**2013**	**2014**
Subordinated fixed rate debts maturing in November 2018	*30(1)*	1,200,000	1,200,000	–	–
Subordinated fixed rate debts maturing in November 2021	*30(2)*	900,000	900,000	900,000	900,000
Subordinated fixed rate debts maturing in May 2024	*30(3)*	–	–	–	2,200,000
Total		2,100,000	2,100,000	900,000	3,100,000

Notes:

(1) Subordinated fixed rate debts of RMB1.2 billion with a term of ten years were issued on November 28, 2008. The coupon rate for the first five years is 5.5%. The Group has an option to redeem the debts at the 5th year at the nominal amount. If the debts are not redeemed by the Group, the coupon rate will increase to 8% for the next 5 years. The Group redeemed the debts in 2013.

(2) Subordinated fixed rate debts of RMB0.9 billion with a term of ten years were issued on November 3, 2011. The coupon rate is 6.5%. The Group has an option to redeem the debts at the 5th year at the nominal amount. If the debts are not redeemed by the Group, the coupon rate will stay the same for the next 5 years.

(3) Subordinated fixed rate debts of RMB2.2 billion with a term of ten years were issued on May 30, 2014. The coupon rate is 6.18%. The Group has an option to redeem the debts at the 5th year at the nominal amount. If the debts are not redeemed by the Group, the coupon rate will stay the same for the next 5 years.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

31 OTHER LIABILITIES

The Group

		December 31,			June 30,
	Note	**2011**	**2012**	**2013**	**2014**
Interest payable	*31(1)*	1,553,533	2,410,535	4,825,644	6,456,685
Dividend payable		8,403	25,755	24,692	434,293
Accrued staff cost	*31(2)*	319,823	317,355	323,693	418,653
Payment and collection clearance accounts		311,040	246,355	564,319	346,060
Deferred income		2,752	–	203,354	221,805
Taxes payable	*31(3)*	131,878	191,625	198,519	200,391
Dormant accounts		25,226	31,083	32,693	30,466
Others		80,021	62,744	115,589	83,855
Total		2,432,676	3,285,452	6,288,503	8,192,208

The Bank

		December 31,			June 30,
	Note	**2011**	**2012**	**2013**	**2014**
Interest payable	*31(1)*	1,553,533	2,409,730	4,824,796	6,455,492
Dividend payable		8,403	25,755	24,692	434,293
Accrued staff cost	*31(2)*	319,823	317,346	323,435	418,639
Payment and collection clearance accounts		311,040	246,205	564,160	346,051
Deferred income		2,752	–	203,354	221,805
Taxes payable	*31(3)*	131,878	191,288	197,870	199,684
Dormant accounts		25,226	31,083	32,690	30,463
Others		80,021	62,481	115,559	83,854
Total		2,432,676	3,283,888	6,286,556	8,190,281

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

31 OTHER LIABILITIES (continued)

(1) Interest payable

The Group

	December 31,			June 30,
	2011	2012	2013	2014
Interest payable arising from:				
– Deposits from customers	1,364,834	2,205,615	3,988,643	5,249,092
– Deposits from banks and other financial institutions	46,289	89,467	496,323	855,298
– Financial assets sold under repurchase agreements	127,003	98,214	318,656	292,022
– Debt securities issued	14,335	14,925	9,425	51,516
– Placements from banks and other financial institutions	1,072	2,314	12,597	8,757
Total	1,553,533	2,410,535	4,825,644	6,456,685

The Bank

	December 31,			June 30,
	2011	2012	2013	2014
Interest payable arising from:				
– Deposits from customers	1,364,834	2,204,704	3,987,795	5,247,849
– Deposits from banks and other financial institutions	46,289	89,573	496,323	855,348
– Financial assets sold under repurchase agreements	127,003	98,214	318,656	292,022
– Debt securities issued	14,335	14,925	9,425	51,516
– Placements from banks and other financial institutions	1,072	2,314	12,597	8,757
Total	1,553,533	2,409,730	4,824,796	6,455,492

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

31 OTHER LIABILITIES (continued)

(2) Accrued staff cost

The Group

	Note	December 31, 2011	December 31, 2012	December 31, 2013	June 30, 2014
Salary, bonuses and allowances payable		99,281	110,559	121,985	240,613
Pension and annuity payable	*(a)*	24,306	26,544	32,785	16,627
Supplementary retirement benefits payable	*(b)*	165,719	149,683	128,364	130,910
Housing allowances payable		29,639	29,583	29,320	29,320
Other social insurance payable		197	410	10,358	38
Others		681	576	881	1,145
Total		319,823	317,355	323,693	418,653

The Bank

	Note	December 31, 2011	December 31, 2012	December 31, 2013	June 30, 2014
Salary, bonuses and allowances payable		99,281	110,559	121,735	240,613
Pension and annuity payable	*(a)*	24,306	26,539	32,781	16,621
Supplementary retirement benefits payable	*(b)*	165,719	149,683	128,364	130,910
Housing allowances payable		29,639	29,583	29,320	29,320
Other social insurance payable		197	406	10,355	34
Others		681	576	880	1,141
Total		319,823	317,346	323,435	418,639

(a) Pension and annuity

Pursuant to the relevant laws and regulations in the PRC, the Group has participated in the social pension schemes for employees arranged by local government labor and social security authorities. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stimulated by the relevant government authorities.

The Group also 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.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

31 OTHER LIABILITIES (continued)

(2) Accrued staff cost (continued)

(b) Supplementary retirement benefits

Early retirement plan

The Group provides early retirement benefit payments 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 Group accounts for the respective obligations in accordance with the accounting policies in Note 2(14).

Supplementary retirement plan

The Group provides a supplementary retirement plan to its eligible employees, which is mainly heating compensation. The Group accounted for the respective obligations in accordance with the accounting policies in Note 2(14).

(i) The balances of supplementary retirement benefits of the Group and the Bank are as follows:

	December 31,			June 30,
	2011	**2012**	**2013**	**2014**
Present value of early retirement plan	137,413	121,026	101,739	100,750
Present value of supplementary retirement plan	28,306	28,657	26,625	30,160
Total	165,719	149,683	128,364	130,910

(ii) The movements of supplementary retirement benefits of the Group and the Bank are as follows:

				Six months ended June 30,
	2011	**2012**	**2013**	**2014**
As at January 1	173,718	165,719	149,683	128,364
Benefits paid during the year/period	(19,150)	(19,409)	(18,646)	(9,194)
Defined benefit cost recognised in profit or loss.	9,853	4,725	1,047	9,291
Defined benefit cost recognised in other comprehensive income	1,298	(1,352)	(3,720)	2,449
As at December 31/ June 30	165,719	149,683	128,364	130,910

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

31 OTHER LIABILITIES (continued)

(2) Accrued staff cost (continued)

(b) Supplementary retirement benefits (continued)

Supplementary retirement plan (continued)

(iii) Principal actuarial assumptions of the Group and the Bank are as follows:

	December 31,			June 30,
Early retirement plan	**2011**	**2012**	**2013**	**2014**
Discount rate	3.00%	3.25%	4.50%	4.00%
Retired age				
– Male	60	60	60	60
– Female	55	55	55	55
Annual increase rate of internal salary	4.00%	4.00%	4.00%	4.00%

	December 31,			June 30,
Supplementary retirement plan	**2011**	**2012**	**2013**	**2014**
Discount rate	4.25%	4.50%	5.25%	4.75%
Turnover rate	3.00%	3.00%	3.00%	3.00%
Retired age				
– Male	60	60	60	60
– Female	55	55	55	55

(3) Taxes payable

The Group

	December 31,			June 30,
	2011	**2012**	**2013**	**2014**
Business tax and surcharges payable	128,451	180,464	188,651	193,181
Others	3,427	11,161	9,868	7,210
Total	131,878	191,625	198,519	200,391

The Bank

	December 31,			June 30,
	2011	**2012**	**2013**	**2014**
Business tax and surcharges payable	128,451	180,127	188,002	192,474
Others	3,427	11,161	9,868	7,210
Total	131,878	191,288	197,870	199,684

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

32 MOVEMENT IN COMPONENTS OF EQUITY

The reconciliation between the opening and closing balance of each component of the Group's consolidated equity is set out in the consolidated statements of changes in equity. Details of the changes in the Bank's individual components of equity between the beginning and the end of each of the Relevant Periods are set out below:

The Bank

	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	(Deficit)/ surplus on remeasurement of net defined benefit liability	Retained earnings	Total
Balance at January 1, 2011		3,396,005	822,383	612,993	604,620	(7,430)	–	1,563,231	6,991,802
Profit for the year		–	–	–	–	–	–	2,612,326	2,612,326
Other comprehensive income		–	–	–	–	254,526	(974)	–	253,552
Total comprehensive income		–	–	–	–	254,526	(974)	2,612,326	2,865,878
Changes in share capital									
– Capital contributed by owners	*33*	300,000	1,200,000	–	–	–	–	–	1,500,000
Appropriation of profit:									
– Appropriation to surplus reserve	*35*	–	–	261,233	–	–	–	(261,233)	–
– Appropriation to general reserve	*35*	–	–	–	512,425	–	–	(512,425)	–
Sub-total		–	–	261,233	512,425	–	–	(773,658)	–
Balance at December 31, 2011		3,696,005	2,022,383	874,226	1,117,045	247,096	(974)	3,401,899	11,357,680

	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	(Deficit)/ surplus on remeasurement of net defined benefit liability	Retained earnings	Total
Balance at January 1, 2012		3,696,005	2,022,383	874,226	1,117,045	247,096	(974)	3,401,899	11,357,680
Profit for the year		–	–	–	–	–	–	3,492,135	3,492,135
Other comprehensive income		–	–	–	–	(219,653)	1,014	–	(218,639)
Total comprehensive income		–	–	–	–	(219,653)	1,014	3,492,135	3,273,496
Appropriation of profit:									
– Appropriation to surplus reserve	*35*	–	–	349,214	–	–	–	(349,214)	–
– Appropriation to general reserve	*35*	–	–	–	107,083	–	–	(107,083)	–
– Cash dividends	*35*	–	–	–	–	–	–	(369,600)	(369,600)
Sub-total		–	–	349,214	107,083	–	–	(825,897)	(369,600)
Balance at December 31, 2012		3,696,005	2,022,383	1,223,440	1,224,128	27,443	40	6,068,137	14,261,576

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

32 MOVEMENT IN COMPONENTS OF EQUITY (continued)

The Bank

	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	(Deficit)/ surplus on remeasurement of net defined benefit liability	Retained earnings	Total
Balance at January 1, 2013		3,696,005	2,022,383	1,223,440	1,224,128	27,443	40	6,068,137	14,261,576
Profit for the year		–	–	–	–	–	–	4,857,221	4,857,221
Other comprehensive income		–	–	–	–	(278,977)	2,790	–	(276,187)
Total comprehensive income		–	–	–	–	(278,977)	2,790	4,857,221	4,581,034
Changes in share capital									
– Capital contributed by owners	*33*	400,000	1,800,000	–	–	–	–	–	2,200,000
Appropriation of profit:									
– Appropriation to surplus reserve	*35*	–	–	485,723	–	–	–	(485,723)	–
– Appropriation to general reserve	*35*	–	–	–	2,093,623	–	–	(2,093,623)	–
Sub-total		–	–	485,723	2,093,623	–	–	(2,579,346)	–
Balance at December 31, 2013		4,096,005	3,822,383	1,709,163	3,317,751	(251,534)	2,830	8,346,012	21,042,610

	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	(Deficit)/ surplus on remeasurement of net defined benefit liability	Retained earnings	Total
Balance at January 1, 2013		3,696,005	2,022,383	1,223,440	1,224,128	27,443	40	6,068,137	14,261,576
Profit for the period		–	–	–	–	–	–	2,147,474	2,147,474
Other comprehensive income		–	–	–	–	8,651	(1,030)	–	7,621
Total comprehensive income		–	–	–	–	8,651	(1,030)	2,147,474	2,155,095
Appropriation of profit:									
– Appropriation to surplus reserve	*35*	–	–	–	–	–	–	–	–
– Appropriation to general reserve	*35*	–	–	–	2,093,623	–	–	(2,093,623)	–
Sub-total		–	–	–	2,093,623	–	–	(2,093,623)	–
Balance at June 30, 2013 (unaudited)		3,696,005	2,022,383	1,223,440	3,317,751	36,094	(990)	6,121,988	16,416,671
Balance at January 1, 2014		4,096,005	3,822,383	1,709,163	3,317,751	(251,534)	2,830	8,346,012	21,042,610
Profit for the period		–	–	–	–	–	–	2,489,660	2,489,660
Other comprehensive income		–	–	–	–	387,339	(1,837)	–	385,502
Total comprehensive income		–	–	–	–	387,339	(1,837)	2,489,660	2,875,162
Changes in share capital									
– Capital contributed by owners	*33*	300,000	1,350,000	–	–	–	–	–	1,650,000
Appropriation of profit:									
– Appropriation to surplus reserve	*35*	–	–	484,402	–	–	–	(484,402)	–
– Appropriation to general reserve	*35*	–	–	–	225,175	–	–	(225,175)	–
– Cash dividends	*35*	–	–	–	–	–	–	(409,601)	(409,601)
Sub-total		–	–	484,402	225,175	–	–	(1,119,178)	(409,601)
Balance at June 30, 2014		4,396,005	5,172,383	2,193,565	3,542,926	135,805	993	9,716,494	25,158,171

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

33 SHARE CAPITAL

Authorised and issued share capital

	December 31,			June 30,
	2011	2012	2013	2014
Number of shares authorised, issued and fully paid at par value (in thousands)	3,696,005	3,696,005	4,096,005	4,396,005

In December 2011, the Bank issued 300 million ordinary shares with a par value of RMB1 at RMB5 per share. The premium arising from the issuance of new shares amounting to RMB1,200 million was recorded in capital reserve.

In December 2013, the Bank issued 400 million ordinary shares with a par value of RMB1 at RMB5.5 per share. The premium arising from the issuance of new shares amounting to RMB1,800 million was recorded in capital reserve.

In April 2014, the Bank issued 300 million ordinary shares with a par value of RMB1 at RMB5.5 per share. The premium arising from the issuance of new shares amounting to RMB1,350 million was recorded in capital reserve.

34 RESERVES

(1) Capital reserve

Capital reserve mainly includes share premium arising from the issuance of new shares at prices in excess of par value.

(2) Surplus reserve

The surplus reserve at the end of each of the Relevant Periods represented statutory surplus reserve fund and discretionary surplus reserve fund.

Pursuant to the Company Law of the PRC and the Article of Association, the Bank is required to appropriate 10% of its net profit as determined under the PRC GAAP after making good prior year's accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

The Bank also appropriate discretionary surplus reserve fund in accordance with the resolution of the shareholders.

(3) General reserve

Prior to July 1, 2012, pursuant to relevant regulations issued by the MOF, the Group is required to set aside a general reserve through its profit appropriation to cover potential losses. In principle, the general reserve balance should not be lower than 1% of the ending balance of its gross risk-bearing assets.

From July 1, 2012, pursuant to the "Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No. 20)" issued by the MOF on March 20, 2012, the Group is required to set aside a general reserve through its profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets by June 30, 2017.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

34 RESERVES (continued)

(4) Investment revaluation reserve

The Group and the Bank

	Years ended December 31,			Six months ended June 30,
	2011	2012	2013	2014
As at January 1	(7,430)	247,096	27,443	(251,534)
Change in fair value recognised in other comprehensive income	322,196	(340,053)	(279,822)	518,512
Less: deferred income tax	(80,549)	85,014	69,955	(129,628)
Transfer to profit or loss upon disposal	17,172	47,182	(92,147)	(2,060)
Less: deferred income tax	(4,293)	(11,796)	23,037	515
Sub-total	254,526	(219,653)	(278,977)	387,339
As at December 31/June 30	247,096	27,443	(251,534)	135,805

(5) (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.

(6) Retained earnings

As at December 31, 2012 and 2013 and June 30, 2014, the retained earnings included the statutory surplus reserve of RMB0.97 million, RMB1.80 million and RMB2.00 million, respectively, appropriated by the subsidiaries and attributable to the Bank, of which RMB0.72 million, RMB0.83 million and RMB0.20 million was appropriated by the subsidiaries for the years ended December 31, 2012 and 2013 and for the six months ended June 30, 2014, respectively. The statutory surplus reserve in retained earnings which is contributed by subsidiaries cannot be further distributed.

35 PROFIT DISTRIBUTION

(1) In accordance with the resolution of the Bank's 2010 Annual General Meeting held on March 26, 2011, the shareholders approved the following profit distribution plan for the year ended December 31, 2010:

- Appropriated 10% of the profit after tax to the statutory surplus reserve fund;
- Appropriated RMB512.43 million to the general reserve;
- No dividend would be distributed to shareholders.

(2) In accordance with the resolution of the Bank's 2011 Annual General Meeting held on March 24, 2012, the shareholders approved the following profit distribution plan for the year ended December 31, 2011:

- Appropriated 10% of the profit after tax to the statutory surplus reserve fund;
- Appropriated RMB107.08 million to the general reserve;
- Declared cash dividends of RMB1.00 per ten shares before tax and in aggregation of RMB369.60 million to all existing shareholders.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

35 PROFIT DISTRIBUTION (continued)

(3) In accordance with the resolution of the Bank's 2012 Annual General Meeting held on March 24, 2013, the shareholders approved the following profit distribution plan for the year ended December 31, 2012:

– Appropriated 10% of the profit after tax to the statutory surplus reserve fund;

– Appropriated RMB2,093.62 million to the general reserve;

– No dividend would be distributed to shareholders.

(4) In accordance with the resolution of the Bank's 2013 Annual General Meeting held on May 30, 2014, the shareholders approved the following profit distribution plan for the year ended December 31, 2013:

– Appropriated 10% of the profit after tax to the statutory surplus reserve fund;

– Appropriated RMB484.40 million to the discretionary surplus reserve fund;

– Appropriated RMB225.18 million to the general reserve;

– Declared cash dividends of RMB1.00 per ten shares before tax and in aggregation of RMB409.60 million to all existing shareholders.

36 NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

Cash and cash equivalents comprise:

The Group

	December 31,			June 30,
	2011	2012	2013	2014
Cash on hand	427,010	599,977	518,431	647,885
Deposits with central bank	18,040,959	14,914,998	18,696,397	17,469,780
Deposits with banks and other financial institutions	10,885,526	52,062,141	10,675,144	8,772,496
Placements with banks and other financial institutions	–	3,000,000	–	246,112
Financial assets held under resale agreements	4,163,078	4,201,696	10,136,796	2,409,149
Total	33,516,573	74,778,812	40,026,768	29,545,422

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Relationship of related parties

(a) Major shareholders

Major shareholders include shareholders of the Bank with 5% or above ownership, or assigning a director in the Bank.

Share percentage in the Bank:

	December 31,			June 30,
	2011	**2012**	**2013**	**2014**
Shenyang Hengxin State-owned Asset Management Group Co., Ltd.	12.99%	12.99%	11.72%	10.92%
Liaoning Huibao International Investment Group Co., Ltd.	10.82%	10.82%	9.77%	9.10%
Xinhu Zhongbao Co., Ltd.	8.12%	8.12%	7.32%	6.82%
Founder Securities Co., Ltd.	8.12%	8.12%	7.32%	6.82%
Beijing Zhaotai Group Co., Ltd.	0.00%	0.00%	0.00%	6.82%
Shenyang Zhongyou Tipo (group) Machinery & Equipment manufacturing Co., Ltd.	6.22%	6.22%	5.62%	5.23%
Shenyang Wuai Industry Co., Ltd.	5.41%	5.41%	4.88%	4.55%
Shanghai Chang Xin (Group) Co., Ltd.	5.41%	5.41%	4.88%	4.55%
Luenmei Group Co., Ltd.	5.41%	5.41%	4.88%	4.55%
Jilin Huahai Energy Group Co., Ltd.	5.41%	5.41%	4.88%	4.55%

(b) Subsidiaries of the Bank

The detailed information of the Bank's subsidiaries is set out in Note 21.

(c) Associates of the Bank

The detailed information of the Bank's associates is set out in Note 22.

(d) 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 subsidiaries) 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 37(1)(a) or their controlling shareholders. Other related parties also include post-employment benefit plans of the Group (Note 31(2)).

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(2) Related party transactions and balances

Related party transactions of the Group mainly refer to loans and deposits, which are entered into in the normal course and terms of business, with consistent pricing policies as in transactions with independent third parties.

(a) Transactions between the Bank and major shareholders

	December 31,			June 30,
	2011	**2012**	**2013**	**2014**
Balances at the end of the year/period:				
Loans and receivables	–	485,100	180,026	–
Deposits from customers	1,097,221	502,978	84,670	16,549
Guarantees received	3,503,793	3,340,976	3,660,234	3,077,124

	Years ended December 31,			Six months ended June 30,	
	2011	**2012**	**2013**	**2013**	**2014**
				(unaudited)	
Transactions during the year/period:					
Interest income	14,843	23,968	35,807	14,944	6,043
Interest expense	310	10,108	2,469	1,572	70

(b) Transactions between the Bank and subsidiaries

	December 31,			June 30,
	2011	**2012**	**2013**	**2014**
Balances at the end of the year/period:				
Deposits from banks and other financial institutions	–	316,057	52,076	74,300

	Years ended December 31,			Six months ended June 30,	
	2011	**2012**	**2013**	**2013**	**2014**
				(unaudited)	
Transactions during the year/period:					
Interest expense	–	1,526	3,892	1,736	1,427

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(2) Related party transactions and balances (continued)

(c) Transactions between the Bank and associates

	December 31,			June 30,
	2011	2012	2013	2014
Balances at the end of the year/period:				
Deposits from banks and other financial institutions	54,326	–	–	–

	Years ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013	2014
				(unaudited)	
Transactions during the year/period:					
Interest expense	1,559	1,527	–	–	–

(d) Transactions between the Bank and other related parties

	December 31,			June 30,
	2011	2012	2013	2014
Balances at the end of the year/period:				
Loans and advances to customers	3,191,502	3,507,690	5,037,694	2,699,886
Loans and receivables	–	293,250	293,342	298,521
Deposits from customers	547,002	421,075	863,981	2,010,658
Bank acceptances	400,000	270,000	300,000	1,891,400
Guarantees received	1,236,000	635,000	574,510	80,000

	Years ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013	2014
				(unaudited)	
Transactions during the year/period:					
Interest income	240,078	233,166	373,943	151,777	201,426
Interest expense	6,927	6,644	15,200	5,461	17,422
Fee and commission income	100	35	14,358	932	60,705

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(3) Key management personnel

(a) Transactions between the Bank and key management personnel

	December 31,			June 30,
	2011	2012	2013	2014
Balances at the end of the year/period:				
Loans and advances to customers	–	18,900	–	–
Deposits from customers	21,150	35,313	25,639	30,991

	Years ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013	2014
				(unaudited)	
Transactions during the year/period:					
Interest income	–	623	1,085	427	–
Interest expense	136	746	1,048	429	257

(b) Key management personnel remuneration

	Years ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013	2014
				(unaudited)	
Salaries and other emoluments	15,325	12,797	16,937	6,593	7,353
Discretionary bonuses	7,977	9,736	8,782	3,768	690
Contributions to pension schemes	814	956	1,255	614	648
Total	24,116	23,489	26,974	10,975	8,691

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 SEGMENT REPORTING

(1) Business Segment

The Group manages its business by business lines and geographical areas. 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 and deposit taking activities, agency services, and remittance and settlement 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 and deposit taking activities, bank card business, personal wealth management services, remittance and settlement services, and collection and payment agency services.

Treasury business

This segment covers the Group's treasury business including inter-bank money market transactions, repurchases transactions and investments. It also trades in debt securities. The treasury segment also covers management of the Group's overall liquidity position, including issuance of debts.

Others

These represent equity investment and related income and any other business which cannot form a single reportable segment.

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, with the exception of deferred income tax assets. Segment income, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated 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.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 SEGMENT REPORTING (continued)

(1) Business Segment (continued)

The Group

	Year ended December 31, 2011				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income/(expense)	4,475,210	(860,505)	1,729,606	–	5,344,311
Internal net interest income/(expense)	323,454	1,133,257	(1,456,711)	–	–
Net interest income	4,798,664	272,752	272,895	–	5,344,311
Net fee and commission income/(expense)	52,355	(888)	13,612	–	65,079
Net trading losses	–	–	(29,508)	–	(29,508)
Net (losses)/gains arising from financial investments	–	–	(17,172)	6,001	(11,171)
Other operating income	13,675	5,889	–	25,035	44,599
Operating income	4,864,694	277,753	239,827	31,036	5,413,310
Operating expenses	(1,261,858)	(255,938)	(203,514)	(5,295)	(1,726,605)
Impairment losses on assets	(436,041)	(9,602)	–	–	(445,643)
Operating profit	3,166,795	12,213	36,313	25,741	3,241,062
Share of profits of associates	–	–	–	34,411	34,411
Profit before tax	3,166,795	12,213	36,313	60,152	3,275,473
Other segment information					
– Depreciation and amortisation	165,709	43,241	11,493	–	220,443
– Capital expenditure	237,336	61,932	16,460	–	315,728

	December 31, 2011				
	Corporate banking	Retail banking	Treasury business	Others	Total
Segment assets	121,271,934	9,642,994	89,690,682	563,955	221,169,565
Deferred tax assets					37,227
Total assets					221,206,792
Segment liabilities/Total liabilities	125,029,427	48,594,009	36,217,263	8,413	209,849,112
Credit commitments	28,133,447	839,186	–	–	28,972,633

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 SEGMENT REPORTING (continued)

(1) Business Segment (continued)

The Group

	Year ended December 31, 2012				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income/(expense)	5,341,925	(1,443,782)	2,886,783	–	6,784,926
Internal net interest income/(expense)	527,226	1,792,178	(2,319,404)	–	–
Net interest income	5,869,151	348,396	567,379	–	6,784,926
Net fee and commission income/(expense)	102,583	(6,758)	16,421	–	112,246
Net trading gains	–	–	2,629	–	2,629
Net (losses)/gains arising from financial investments	–	–	(47,182)	14,842	(32,340)
Other operating income	16,660	6,097	–	18,073	40,830
Operating income	5,988,394	347,735	539,247	32,915	6,908,291
Operating expenses	(1,434,622)	(282,761)	(299,434)	(563)	(2,017,380)
Impairment losses on assets	(420,530)	(11,184)	–	–	(431,714)
Operating profit	4,133,242	53,790	239,813	32,352	4,459,197
Share of profits of associates	–	–	–	23,795	23,795
Profit before tax	4,133,242	53,790	239,813	56,147	4,482,992
Other segment information					
– Depreciation and amortisation	164,023	42,801	11,376	–	218,200
– Capital expenditure	172,730	45,073	11,980	–	229,783

	December 31, 2012				
	Corporate banking	Retail banking	Treasury business	Others	Total
Segment assets	141,995,411	12,674,416	157,952,611	443,595	313,066,033
Deferred tax assets					175,546
Total assets					313,241,579
Segment liabilities/Total liabilities	147,872,043	63,244,470	87,438,182	29,060	298,583,755
Credit commitments	40,737,181	1,167,909	–	–	41,905,090

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 SEGMENT REPORTING (continued)

(1) Business Segment (continued)

The Group

	Year ended December 31, 2013				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income/(expense)	4,812,024	(2,043,305)	5,075,464	–	7,844,183
Internal net interest income/(expense)	1,114,366	2,461,676	(3,576,042)	–	–
Net interest income	5,926,390	418,371	1,499,422	–	7,844,183
Net fee and commission income/(expense)	765,259	(106)	4,988	–	770,141
Net trading losses	–	–	(2,000)	–	(2,000)
Net gains arising from financial investments	–	–	92,147	116,066	208,213
Other operating income	19,023	5,997	–	60,237	85,257
Operating income	6,710,672	424,262	1,594,557	176,303	8,905,794
Operating expenses	(1,680,586)	(331,567)	(430,473)	(3,101)	(2,445,727)
Impairment losses on assets	(155,284)	(16,576)	–	–	(171,860)
Operating profit	4,874,802	76,119	1,164,084	173,202	6,288,207
Share of profits of associates	–	–	–	19,719	19,719
Profit before tax	4,874,802	76,119	1,164,084	192,921	6,307,926
Other segment information					
– Depreciation and amortisation	170,456	43,187	11,767	–	225,410
– Capital expenditure	323,088	81,857	22,301	–	427,246

	December 31, 2013				
	Corporate banking	Retail banking	Treasury business	Others	Total
Segment assets	166,124,494	15,698,037	172,968,578	402,844	355,193,953
Deferred tax assets					238,214
Total assets					355,432,167
Segment liabilities/Total liabilities	190,323,235	78,019,573	65,581,273	37,648	333,961,729
Credit commitments	52,426,799	1,634,388	–	–	54,061,187

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 SEGMENT REPORTING (continued)

(1) Business Segment (continued)

The Group

	Six months ended June 30, 2013 (unaudited)				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income/(expense)	2,094,001	(949,672)	2,488,402	–	3,632,731
Internal net interest income/(expense)	579,747	1,149,966	(1,729,713)	–	–
Net interest income	2,673,748	200,294	758,689	–	3,632,731
Net fee and commission income/(expense)	277,494	(2,510)	5,770	–	280,754
Net trading gains	–	–	1,136	–	1,136
Net gains arising from financial investments	–	–	92,867	–	92,867
Other operating income	5,148	2,754	–	3,303	11,205
Operating income	2,956,390	200,538	858,462	3,303	4,018,693
Operating expenses	(774,731)	(159,343)	(210,209)	(278)	(1,144,561)
Impairment losses on assets	(137,754)	(5,110)	–	–	(142,864)
Operating profit	2,043,905	36,085	648,253	3,025	2,731,268
Share of profits of associates	–	–	–	22,176	22,176
Profit before tax	2,043,905	36,085	648,253	25,201	2,753,444
Other segment information					
– Depreciation and amortisation	81,365	21,604	7,856	–	110,825
– Capital expenditure	107,920	28,655	10,420	–	146,995

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 SEGMENT REPORTING (continued)

(1) Business Segment (continued)

The Group

	Six months ended June 30, 2014				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income/(expense)	2,476,220	(1,211,255)	3,354,691	–	4,619,656
Internal net interest income/(expense)	695,448	1,449,655	(2,145,103)	–	–
Net interest income	3,171,668	238,400	1,209,588	–	4,619,656
Net fee and commission income/(expense)	708,098	1,660	(3,357)	–	706,401
Net trading gains	–	–	5,610	–	5,610
Net gains/(losses) arising from financial investments	–	–	2,061	(113,631)	(111,570)
Other operating income	5,763	3,153	–	10,499	19,415
Operating income	3,885,529	243,213	1,213,902	(103,132)	5,239,512
Operating expenses	(1,054,494)	(214,872)	(315,637)	(5,631)	(1,590,634)
Impairment losses on assets	(347,051)	(22,041)	–	–	(369,092)
Operating profit	2,483,984	6,300	898,265	(108,763)	3,279,786
Share of profits of associates	–	–	–	2,338	2,338
Profit before tax	2,483,984	6,300	898,265	(106,425)	3,282,124
Other segment information					
– Depreciation and amortisation	104,762	27,087	10,172	–	142,021
– Capital expenditure	463,834	119,927	45,037	–	628,798

	June 30, 2014				
	Corporate banking	Retail banking	Treasury business	Others	Total
Segment assets	182,599,410	17,554,322	248,538,415	275,925	448,968,072
Deferred tax assets					159,385
Total assets					449,127,457
Segment liabilities/Total liabilities	214,802,538	87,786,621	120,514,233	422,102	423,525,494
Credit commitments	68,257,421	1,971,819	–	–	70,229,240

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 SEGMENT REPORTING (continued)

(2) Geographical information

The Group operates principally in mainland China with fourteen branches located in four provinces and municipalities directly under the central government, and six subsidiaries located in Liaoning Province, Shanghai and Ningbo of Zhejiang Province respectively.

In presenting of geographical information, non-current assets are allocated based on the geographical location of the underlying assets. Operating income is allocated based on the location of the Group's entities which generate income. Geographical areas, as defined for management reporting purposes, are as follows:

- "Northeast China" refers to headquarters and the following areas serviced by subsidiaries and branches of the Bank: Shenyang, Changchun, Dalian, Anshan, Benxi, Yingkou, Huludao, Panjin, Jinzhou, Chaoyang, Fushun, Shenyang Xinmin, Shenyang Shenbei, Shenyang Faku, and Shenyang Liaozhong;
- "North China" refers to the following areas serviced by branches of the Bank: Beijing and Tianjin;
- "Others" refers to the following areas serviced by subsidiaries and branches of the Bank: Shanghai, Shanghai Baoshan, and Ningbo Jiangbei.

The Group

	Operating income				
	Years ended December 31,			Six months ended June 30,	
	2011	2012	2013	2013	2014
				(unaudited)	
Northeast China	4,260,248	5,761,232	7,536,762	3,314,963	4,454,206
North China	1,102,499	1,009,537	1,253,255	630,951	675,136
Others	50,563	137,522	115,777	72,779	110,170
Total	5,413,310	6,908,291	8,905,794	4,018,693	5,239,512

	Non-current assets *(Note i)*			
	December 31,			June 30,
	2011	2012	2013	2014
Northeast China	1,967,408	2,003,816	2,134,378	2,641,589
North China	464,657	439,812	420,124	403,188
Others	12,994	19,613	25,348	21,848
Total	2,445,059	2,463,241	2,579,850	3,066,625

Note:

(i) Non-current assets include property and equipment, intangible assets, long-term deferred expense and land use rights.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT

The Group is primarily exposed to credit, interest rate, currency and liquidity risks from its use of financial instruments in the normal course of the Group's operations. This note mainly presents information about the Group's exposure to each of the above risks and their sources, the Group's objectives, policies and processes for measuring and managing risks.

The Group aims to seek the appropriate balance between the risks and benefits from its use of financial instruments and minimise potential adverse effects.

The Board of Directors (the "Board") is the highest decision-making authority within the Bank in terms of risk management and oversees the Group's risk management functions through the Risk Control Committee. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

Senior management is the highest execution level in the risk management structure and reports directly to the Risk Control Committee of the Board. Based on the risk management strategies determined by the Board, senior management is responsible for formulating and implementing risk management policies and systems, as well as supervising, identifying and controlling the risks that various businesses are exposed to.

(1) 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 debt investments portfolios and guarantees granted.

Credit business

The Board is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The Board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies, ensures that all kinds of credit risk in various businesses are properly identified, assessed, calculated and monitored. The Risk Control Center is responsible for credit risk management. Front-office departments such as the Corporate Banking Department, the Retail Banking Department, the Investment Banking Department and the Financial Market Operation Centre carry out credit businesses according to the Group's risk management policies and procedures.

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.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(1) Credit risk (continued)

Credit business (continued)

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 collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral 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.

Treasury Business

The Group's treasury business are exposed to the credit risk associated with the investment business and inter-bank business. The Group manages the credit risk exposures by setting credit limits to the internal credit ratings of its treasure business. Credit risk exposure is closely monitored on a systematic, real-time basis, and credit risk limits are reviewed and updated regularly.

(a) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the carrying amount of each type of financial assets as at the end of each of the Relevant Periods. The maximum exposure to credit risk in respect of those off-balance sheet items as at the end of each of the Relevant Periods is disclosed in Note 41(1).

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(1) Credit risk (continued)

(b) Loans and advances to customers

The Group

	December 31,			June 30,
	2011	2012	2013	2014
Gross balance of loans and advances to customers				
Neither overdue nor impaired	97,613,534	112,063,328	132,474,641	146,460,713
Overdue but not impaired	141,514	1,452,903	348,393	639,787
Impaired	617,377	614,587	613,776	644,761
	98,372,425	114,130,818	133,436,810	147,745,261
Less: allowance for impairment loss				
Neither overdue nor impaired	(1,145,825)	(1,385,301)	(1,596,125)	(1,883,926)
Overdue but not impaired	(10,873)	(75,430)	(18,862)	(33,557)
Impaired	(453,274)	(398,885)	(263,931)	(304,432)
	(1,609,972)	(1,859,616)	(1,878,918)	(2,221,915)
Net balance				
Neither overdue nor impaired	96,467,709	110,678,027	130,878,516	144,576,787
Overdue but not impaired	130,641	1,377,473	329,531	606,230
Impaired	164,103	215,702	349,845	340,329
	96,762,453	112,271,202	131,557,892	145,523,346

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(1) Credit risk (continued)

(b) Loans and advances to customers (continued)

The Bank

	December 31,			June 30,
	2011	**2012**	**2013**	**2014**
Gross balance of loans and advances to customers				
– Neither overdue nor impaired	97,613,534	111,599,578	131,982,371	145,944,803
– Overdue but not impaired	141,514	1,438,203	346,693	624,787
– Impaired	617,377	614,587	596,776	627,761
	98,372,425	113,652,368	132,925,840	147,197,351
Less: allowance for impairment loss				
– Neither overdue nor impaired	(1,145,825)	(1,380,586)	(1,586,721)	(1,875,248)
– Overdue but not impaired	(10,873)	(74,448)	(18,755)	(32,725)
– Impaired	(453,274)	(398,885)	(260,465)	(299,899)
	(1,609,972)	(1,853,919)	(1,865,941)	(2,207,872)
Net balance				
– Neither overdue nor impaired	96,467,709	110,218,992	130,395,650	144,069,555
– Overdue but not impaired	130,641	1,363,755	327,938	592,062
– Impaired	164,103	215,702	336,311	327,862
	96,762,453	111,798,449	131,059,899	144,989,479

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(1) Credit risk (continued)

(b) Loans and advances to customers (continued)

(i) Neither overdue nor impaired

Credit risk of loans and advances to customers neither overdue nor impaired was analysed as follows:

The Group

	December 31,			June 30,
	2011	2012	2013	2014
Corporate loans and advances	95,095,933	108,996,112	128,663,302	141,908,857
Personal loans and advances	2,517,601	3,067,216	3,811,339	4,551,856
Total gross balance	97,613,534	112,063,328	132,474,641	146,460,713

The Bank

	December 31,			June 30,
	2011	2012	2013	2014
Corporate loans and advances	95,095,933	108,560,312	128,227,722	141,463,677
Personal loans and advances	2,517,601	3,039,266	3,754,649	4,481,126
Total gross balance	97,613,534	111,599,578	131,982,371	145,944,803

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(1) Credit risk (continued)

(b) Loans and advances to customers (continued)

(ii) Overdue but not impaired

The following tables present the ageing analysis of each type of loans and advances to customers of the Group and the Bank which were overdue but not impaired as at the end of each of the Relevant Periods.

The Group and the Bank

	December 31, 2011				
	Less than 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Total
Corporate loans and advances	–	134,950	–	–	134,950
Personal loans and advances	4,083	1,797	684	–	6,564
Total gross balance	4,083	136,747	684	–	141,514

The Group

	December 31, 2012				
	Less than 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Total
Corporate loans and advances	337,020	832,619	279,022	–	1,448,661
Personal loans and advances	2,736	871	635	–	4,242
Total gross balance	339,756	833,490	279,657	–	1,452,903

	December 31, 2013				
	Less than 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Total
Corporate loans and advances	70,000	269,500	–	1,700	341,200
Personal loans and advances	4,107	1,792	1,294	–	7,193
Total gross balance	74,107	271,292	1,294	1,700	348,393

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(1) Credit risk (continued)

(b) Loans and advances to customers (continued)

(ii) Overdue but not impaired (continued)

The Group

	June 30, 2014				
	Less than 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Total
Corporate loans and advances	315,000	303,943	–	–	618,943
Personal loans and advances	11,415	4,360	5,069	–	20,844
Total gross balance	326,415	308,303	5,069	–	639,787

The Bank

	December 31, 2012				
	Less than 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Total
Corporate loans and advances	337,020	817,919	279,022	–	1,433,961
Personal loans and advances	2,736	871	635	–	4,242
Total gross balance	339,756	818,790	279,657	–	1,438,203

	December 31, 2013				
	Less than 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Total
Corporate loans and advances	70,000	269,500	–	–	339,500
Personal loans and advances	4,107	1,792	1,294	–	7,193
Total gross balance	74,107	271,292	1,294	–	346,693

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(1) Credit risk (continued)

(b) Loans and advances to customers (continued)

(ii) Overdue but not impaired (continued)

The Bank

	June 30, 2014				
	Less than 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Total
Corporate loans and advances	300,000	303,943	–	–	603,943
Personal loans and advances	11,415	4,360	5,069	–	20,844
Total gross balance	311,415	308,303	5,069	–	624,787

The fair value of related collateral held by the Group and the Bank as security is as follows:

The Group

	December 31,			June 30,
	2011	2012	2013	2014
Fair value of collateral held against loans and advances overdue but not impaired	239,211	2,455,606	351,773	921,971

The Bank

	December 31,			June 30,
	2011	2012	2013	2014
Fair value of collateral held against loans and advances overdue but not impaired	239,211	2,433,340	348,935	921,971

The above collateral mainly includes land, buildings, machinery and equipment, etc. The fair value of collateral was estimated by the Group based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(1) Credit risk (continued)

(b) Loans and advances to customers (continued)

(iii) Impaired loans

The Group

	December 31,			June 30,
	2011	**2012**	**2013**	**2014**
Corporate loans and advances	588,853	582,783	572,620	596,524
Personal loans and advances	28,524	31,804	41,156	48,237
Total	617,377	614,587	613,776	644,761
% of total loans and advances	0.63%	0.54%	0.46%	0.44%
Allowance for impairment losses				
– Corporate loans and advances	436,140	375,424	228,496	260,915
– Personal loans and advances	17,134	23,461	35,435	43,517
Total	453,274	398,885	263,931	304,432
Fair value of collateral held against impaired loans	137,727	178,835	339,144	241,848

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(1) Credit risk (continued)

(b) Loans and advances to customers (continued)

(iii) Impaired loans (continued)

The Bank

	December 31,			June 30,
	2011	**2012**	**2013**	**2014**
Corporate loans and advances	588,853	582,783	555,620	579,524
Personal loans and advances	28,524	31,804	41,156	48,237
Total	617,377	614,587	596,776	627,761
% of total loans and advances	0.63%	0.54%	0.45%	0.43%
Allowance for impairment losses				
– Corporate loans and advances	436,140	375,424	225,030	256,382
– Personal loans and advances	17,134	23,461	35,435	43,517
Total	453,274	398,885	260,465	299,899
Fair value of collateral held against impaired loans	137,727	178,835	328,509	232,528

The above collateral mainly includes land, buildings, machinery and equipment, etc. The fair value of collateral was estimated by the Group based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

(iv) Loans and advances rescheduled

Rescheduling is a voluntary or, to a limited extent, court-supervised procedure, through which the Group and a borrower and/or its guarantor, if any, reschedule credit terms generally as a result of deterioration in the borrower's financial condition or of the borrower's inability to make payments when due. The Group reschedules a non-performing loan only if the borrower has good prospects. In addition, prior to approving the rescheduling of loans, the Group typically requires additional guarantees, pledges and/or collateral, or assumption of the loans by a borrower with better repayment ability. The rescheduled loans of the Group and the Bank amounted to RMB12 million as at June 30, 2014 (2013: RMB12 million, 2012: RMB12 million, 2011: nil) which were all overdue more than 90 days.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(1) Credit risk (continued)

(c) Amounts due from banks and other financial institutions

The Group adopts an internal credit rating approach in managing the credit risk of amounts due from banks and other financial institutions. The distribution according to the credit rating of amounts due from banks and non-bank financial institutions (including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institutions) is as follows:

The Group

	December 31,			June 30,
	2011	2012	2013	2014
Carrying amount				
Neither overdue nor impaired				
– grade A to AAA	14,666,125	53,474,567	56,157,622	63,985,052
– grade B to BBB	5,740,601	20,730,005	21,841,042	46,316,911
– unrated	102,867	1,849	1,849	10,618
Total	20,509,593	74,206,421	78,000,513	110,312,581

The Bank

	December 31,			June 30
	2011	2012	2013	2014
Carrying amount				
Neither overdue nor impaired				
– grade A to AAA	14,666,125	53,463,963	55,872,312	63,764,972
– grade B to BBB	5,740,601	20,730,005	21,841,042	46,316,911
– unrated	102,867	1,849	1,849	10,618
Total	20,509,593	74,195,817	77,715,203	110,092,501

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(1) Credit risk (continued)

(d) Debt securities

The credit risk of debt securities mainly arises from the risk that the issuer might default on a payment or go into liquidation. Debt securities by different types of issuers are generally subject to different degrees of credit risk.

The following tables present an analysis of the Group's total credit risk exposures of debt securities by types of issuers:

The Group and the Bank

	December 31,			June 30,
	2011	2012	2013	2014
Carrying amount				
Neither overdue nor impaired				
– Government	19,207,134	16,483,299	17,464,846	17,671,914
– The PBOC	2,792,633	2,698,167	–	–
– Policy banks	23,279,726	30,188,809	28,582,320	40,678,569
– Banks and other financial institutions	2,559,400	2,290,881	14,516,902	42,218,021
– Corporate	1,814,292	15,134,624	13,102,557	15,759,188
Total	49,653,185	66,795,780	73,666,625	116,327,692

(2) 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, exchange rates, commodity prices, stock prices and other prices. The market risk management aims to manage and monitor market risk, control the potential losses associated with market risk within the acceptable limit and maximise the risk-adjusted income.

The Board is responsible for approving the market risk management strategies and policies, determining the acceptable level of market risk and authorising the Risk Control Committee to supervise the market risk management conducted by the senior management. The Financial Market Operation Center and the International Business Department of the Bank are responsible for identifying, measuring, monitoring and reporting the market risk of the various business lines. The Planning and Accounting Management Department provides various data on market risks and other technical support to the Financial Market Operation Center and the International Business Department. The Risk Control Center is responsible for the overall market risk management.

The Group employed sensitivity analysis, interest repricing gap analysis, foreign currency gap analysis, stress testing and effective duration analysis to measure and monitor the market risk.

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile with reference to the interest rate risks for different maturities.

Interest repricing gap analysis is a technique which estimates the impact of interest rate movements on the Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorising each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(2) Market risk (continued)

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Group's on/off-balance sheet items.

The results of stress testing are assessed against a set of forward-looking scenarios using stress moves in market variables. The results are used to estimate the impact on profit or loss.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Group's economic value.

(a) 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 treasury position.

(i) 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 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.

The Financial Market Operation Center is responsible for identifying, measuring, monitoring and managing interest rate risk. The Group regularly performs assessment on the interest rate repricing gap between the assets and liabilities that are sensitive to changes in interest rates and sensitivity analysis on the net interest income as a result of changes in interest rates. The primary objective of interest rate risk management is to minimise potential adverse effects on its net interest income or its inherent economic value caused by interest rate volatility.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(a) Interest rate risk (continued)

(i) Repricing risk (continued)

The following tables indicate the assets and liabilities analysis 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 and the Bank

	December 31, 2011					
	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 central bank	48,145,115	427,010	47,718,105	–	–	–
Deposits with banks and other financial institutions	16,235,408	–	10,885,526	5,349,882	–	–
Financial assets at fair value through profit or loss	304,893	–	–	–	304,893	–
Financial assets held under resale agreements	4,274,185	–	4,164,838	109,347	–	–
Loans and advances to customers *(Note (i))*	96,762,453	–	78,764,777	7,744,338	10,076,394	176,944
Financial investments *(Note (ii))*	49,522,430	174,138	2,165,014	6,563,684	15,408,804	25,210,790
Others	5,962,308	5,962,308	–	–	–	–
Total assets	221,206,792	6,563,456	143,698,260	19,767,251	25,790,091	25,387,734
Liabilities						
Deposits from banks and other financial institutions	(13,138,463)	–	(12,038,463)	(1,100,000)	–	–
Placements from banks and other financial institutions	(1,560,407)	–	(1,560,407)	–	–	–
Financial assets sold under repurchase agreements	(19,142,507)	–	(19,142,507)	–	–	–
Deposits from customers	(171,474,491)	–	(109,105,888)	(19,014,453)	(40,980,247)	(2,373,903)
Debt securities issued	(2,100,000)	–	–	–	(1,200,000)	(900,000)
Others	(2,433,244)	(2,433,244)	–	–	–	–
Total liabilities	(209,849,112)	(2,433,244)	(141,847,265)	(20,114,453)	(42,180,247)	(3,273,903)
Asset-liability gap	11,357,680	4,130,212	1,850,995	(347,202)	(16,390,156)	22,113,831

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(a) Interest rate risk (continued)

(i) Repricing risk (continued)

The Group

	December 31, 2012					
	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 central bank	53,692,071	599,977	53,092,094	–	–	–
Deposits with banks and other financial institutions	62,276,490	–	56,068,463	6,208,027	–	–
Placements with banks and other financial institutions	3,000,000	–	3,000,000	–	–	–
Financial assets at fair value through profit or loss	301,028	–	–	–	301,028	–
Financial assets held under resale agreements	8,929,931	–	7,787,758	1,142,173	–	–
Loans and advances to customers *(Note (i))*	112,271,202	–	92,606,953	9,701,855	9,962,394	–
Financial investments *(Note (ii))*	66,670,890	176,138	5,578,897	15,973,813	23,931,671	21,010,371
Others	6,099,967	6,099,967	–	–	–	–
Total assets	313,241,579	6,876,082	218,134,165	33,025,868	34,195,093	21,010,371
Liabilities						
Deposits from banks and other financial institutions	(38,553,613)	–	(35,633,613)	(2,920,000)	–	–
Placements from banks and other financial institutions	(5,620,136)	–	(5,620,136)	–	–	–
Financial assets sold under repurchase agreements	(40,773,450)	–	(40,773,450)	–	–	–
Deposits from customers	(207,987,227)	–	(113,828,354)	(63,807,215)	(28,321,471)	(2,030,187)
Debt securities issued	(2,100,000)	–	–	(1,200,000)	–	(900,000)
Others	(3,549,329)	(3,549,329)	–	–	–	–
Total liabilities	(298,583,755)	(3,549,329)	(195,855,553)	(67,927,215)	(28,321,471)	(2,930,187)
Asset-liability gap	14,657,824	3,326,753	22,278,612	(34,901,347)	5,873,622	18,080,184

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(a) Interest rate risk (continued)

(i) Repricing risk (continued)

The Group

	December 31, 2013					
	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 central bank	65,238,089	518,431	64,719,658	–	–	–
Deposits with banks and other financial institutions	62,233,233	–	22,458,733	11,491,500	28,283,000	–
Placements with banks and other financial institutions	61,024	–	–	61,024	–	–
Financial assets held under resale agreements	15,706,256	–	10,136,796	5,569,460	–	–
Loans and advances to customers *(Note (i))*	131,557,892	–	128,265,977	2,169,015	41,141	1,081,759
Financial investments *(Note (ii))*	73,782,025	115,400	9,722,826	20,620,356	22,071,693	21,251,750
Others	6,853,648	6,853,648	–	–	–	–
Total assets	355,432,167	7,487,479	235,303,990	39,911,355	50,395,834	22,333,509
Liabilities						
Deposits from banks and other financial institutions	(41,327,497)	–	(30,303,807)	(11,023,690)	–	–
Placements from banks and other financial institutions	(1,189,968)	–	(915,360)	(274,608)	–	–
Financial assets sold under repurchase agreements	(20,919,468)	–	(8,098,964)	(12,820,504)	–	–
Deposits from customers	(262,912,728)	–	(128,487,497)	(85,716,341)	(48,208,869)	(500,021)
Debt securities issued	(900,000)	–	–	–	–	(900,000)
Others	(6,712,068)	(6,712,068)	–	–	–	–
Total liabilities	(333,961,729)	(6,712,068)	(167,805,628)	(109,835,143)	(48,208,869)	(1,400,021)
Asset-liability gap	21,470,438	775,411	67,498,362	(69,923,788)	2,186,965	20,933,488

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(a) Interest rate risk (continued)

(i) Repricing risk (continued)

The Group

	June 30, 2014					
	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 central bank	68,393,751	647,885	67,745,866	–	–	–
Deposits with banks and other financial institutions	94,578,302	–	41,260,396	22,500,906	30,817,000	–
Placements with banks and other financial institutions	383,935	–	383,935	–	–	–
Financial assets held under resale agreements	15,350,344	–	7,975,818	7,374,526	–	–
Loans and advances to customers *(Note (i))*	145,523,346	–	116,505,951	15,162,223	12,296,783	1,558,389
Financial investments *(Note (ii))*	116,603,617	275,925	21,636,223	45,592,679	25,233,377	23,865,413
Others	8,294,162	8,294,162	–	–	–	–
Total assets	449,127,457	9,217,972	255,508,189	90,630,334	68,347,160	25,423,802
Liabilities						
Deposits from banks and other financial institutions	(68,815,726)	–	(41,603,796)	(26,073,930)	(1,138,000)	–
Placements from banks and other financial institutions	(1,716,631)	–	(1,125,962)	(590,669)	–	–
Financial assets sold under repurchase agreements	(45,391,320)	–	(43,157,620)	(2,233,700)	–	–
Deposits from customers	(295,933,625)	–	(146,199,235)	(70,346,874)	(78,621,741)	(765,775)
Debt securities issued	(3,100,000)	–	–	–	–	(3,100,000)
Others	(8,568,192)	(8,568,192)	–	–	–	–
Total liabilities	(423,525,494)	(8,568,192)	(232,086,613)	(99,245,173)	(79,759,741)	(3,865,775)
Asset-liability gap	25,601,963	649,780	23,421,576	(8,614,839)	(11,412,581)	21,558,027

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(a) Interest rate risk (continued)

(i) Repricing risk (continued)

The Bank

	December 31, 2012					
	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 central bank	53,627,498	597,940	53,029,558	–	–	–
Deposits with banks and other financial institutions	62,265,886	–	56,066,859	6,199,027	–	–
Placements with banks and other financial institutions	3,000,000	–	3,000,000	–	–	–
Financial assets at fair value through profit or loss	301,028	–	–	–	301,028	–
Financial assets held under resale agreements	8,929,931	–	7,787,758	1,142,173	–	–
Loans and advances to customers *(Note (i))*	111,798,449	–	92,134,200	9,701,855	9,962,394	–
Financial investments *(Note (ii))*	66,670,890	176,138	5,578,897	15,973,813	23,931,671	21,010,371
Others	6,235,849	6,235,849	–	–	–	–
Total assets	312,829,531	7,009,927	217,597,272	33,016,868	34,195,093	21,010,371
Liabilities						
Deposits from banks and other financial institutions	(38,854,872)	–	(35,934,872)	(2,920,000)	–	–
Placements from banks and other financial institutions	(5,620,136)	–	(5,620,136)	–	–	–
Financial assets sold under repurchase agreements	(40,773,450)	–	(40,773,450)	–	–	–
Deposits from customers	(207,675,402)	–	(113,584,960)	(63,785,138)	(28,275,117)	(2,030,187)
Debt securities issued	(2,100,000)	–	–	(1,200,000)	–	(900,000)
Others	(3,544,095)	(3,544,095)	–	–	–	–
Total liabilities	(298,567,955)	(3,544,095)	(195,913,418)	(67,905,138)	(28,275,117)	(2,930,187)
Asset-liability gap	14,261,576	3,465,832	21,683,854	(34,888,270)	5,919,976	18,080,184

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(a) Interest rate risk (continued)

(i) Repricing risk (continued)

The Bank

	December 31, 2013					
	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 central bank	65,177,508	516,617	64,660,891	–	–	–
Deposits with banks and other financial institutions	61,947,923	–	22,444,923	11,220,000	28,283,000	–
Placements with banks and other financial institutions	61,024	–	–	61,024	–	–
Financial assets held under resale agreements	15,706,256	–	10,136,796	5,569,460	–	–
Loans and advances to customers *(Note (i))*	131,059,899	–	127,768,684	2,168,315	41,141	1,081,759
Financial investments *(Note (ii))*	73,782,025	115,400	9,722,826	20,620,356	22,071,693	21,251,750
Others	6,982,081	6,982,081	–	–	–	–
Total assets	354,716,716	7,614,098	234,734,120	39,639,155	50,395,834	22,333,509
Liabilities						
Deposits from banks and other financial institutions	(41,370,100)	–	(30,346,410)	(11,023,690)	–	–
Placements from banks and other financial institutions	(1,189,968)	–	(915,360)	(274,608)	–	–
Financial assets sold under repurchase agreements	(20,919,468)	–	(8,098,964)	(12,820,504)	–	–
Deposits from customers	(262,587,962)	–	(128,232,847)	(85,707,341)	(48,147,753)	(500,021)
Debt securities issued	(900,000)	–	–	–	–	(900,000)
Others	(6,706,608)	(6,706,608)	–	–	–	–
Total liabilities	(333,674,106)	(6,706,608)	(167,593,581)	(109,826,143)	(48,147,753)	(1,400,021)
Asset-liability gap	21,042,610	907,490	67,140,539	(70,186,988)	2,248,081	20,933,488

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(a) Interest rate risk (continued)

(i) Repricing risk (continued)

The Bank

	June 30, 2014					
	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 central bank	68,329,516	645,501	67,684,015	–	–	–
Deposits with banks and other financial institutions	94,358,222	–	41,040,316	22,500,906	30,817,000	–
Placements with banks and other financial institutions	383,935	–	383,935	–	–	–
Financial assets held under resale agreements	15,350,344	–	7,975,818	7,374,526	–	–
Loans and advances to customers *(Note (i))*	144,989,479	–	115,972,784	15,161,523	12,296,783	1,558,389
Financial investments *(Note (ii))*	116,603,617	275,925	21,636,223	45,592,679	25,233,377	23,865,413
Others	8,423,375	8,423,375	–	–	–	–
Total assets	448,438,488	9,344,801	254,693,091	90,629,634	68,347,160	25,423,802
Liabilities						
Deposits from banks and other financial institutions	(68,866,168)	–	(41,654,238)	(26,073,930)	(1,138,000)	–
Placements from banks and other financial institutions	(1,716,631)	–	(1,125,962)	(590,669)	–	–
Financial assets sold under repurchase agreements	(45,391,320)	–	(43,157,620)	(2,233,700)	–	–
Deposits from customers	(295,641,429)	–	(145,972,806)	(70,346,874)	(78,621,741)	(700,008)
Debt securities issued	(3,100,000)	–	–	–	–	(3,100,000)
Others	(8,564,769)	(8,564,769)	–	–	–	–
Total liabilities	(423,280,317)	(8,564,769)	(231,910,626)	(99,245,173)	(79,759,741)	(3,800,008)
Asset-liability gap	25,158,171	780,032	22,782,465	(8,615,539)	(11,412,581)	21,623,794

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(a) Interest rate risk (continued)

(i) Repricing risk (continued)

Notes:

(i) For the Group's loans and advances to customers, the category "Less than three months" as at December 31, 2011, 2012 and 2013, and June 30, 2014 includes overdue amounts (net of provision for impairment losses) of RMB276 million, RMB1,542 million, RMB661 million and RMB909 million, respectively.

For the Bank's loans and advances to customers, the category "Less than three months" as at December 31, 2011, 2012 and 2013, and June 30, 2014 includes overdue amounts (net of provision for impairment losses) of RMB276 million, RMB1,529 million, RMB650 million and RMB883 million, respectively.

(ii) Financial investments include available-for-sale financial assets, held-to-maturity investments and loans and receivables.

(ii) Interest rate sensitivity analysis

The Group

	December 31,			June 30,
	2011	2012	2013	2014
Change in profit after taxation	**Increase/ (decrease)**	**Increase/ (decrease)**	**Increase/ (decrease)**	**Increase/ (decrease)**
Up 100 bps parallel shift in yield curves.	(14,275)	(9,571)	243,092	117,391
Down 100 bps parallel shift in yield curves	14,275	9,571	(243,092)	(117,391)

	December 31,			June 30,
	2011	2012	2013	2014
Change in equity	**Increase/ (decrease)**	**Increase/ (decrease)**	**Increase/ (decrease)**	**Increase/ (decrease)**
Up 100 bps parallel shift in yield curves.	(478,923)	(443,580)	(178,461)	(363,997)
Down 100 bps parallel shift in yield curves	516,158	476,494	211,572	400,429

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(a) Interest rate risk (continued)

(ii) Interest rate sensitivity analysis (continued)

The Bank

	December 31,			June 30,
	2011	2012	2013	2014
Change in profit after taxation	**Increase/ (decrease)**	**Increase/ (decrease)**	**Increase/ (decrease)**	**Increase/ (decrease)**
Up 100 bps parallel shift in yield curves.	(14,275)	(13,438)	240,003	113,195
Down 100 bps parallel shift in yield curves	14,275	13,438	(240,003)	(113,195)

	December 31,			June 30,
	2011	2012	2013	2014
Change in equity	**Increase/ (decrease)**	**Increase/ (decrease)**	**Increase/ (decrease)**	**Increase/ (decrease)**
Up 100 bps parallel shift in yield curves.	(478,923)	(447,447)	(181,550)	(368,193)
Down 100 bps parallel shift in yield curves	516,158	480,361	214,661	404,625

The sensitivity analysis above is based on simplified scenarios. This analysis measures only the impact of changes in interest rates within one year, showing how annualised 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 all financial instruments of the Group;

– At the end of each of the Relevant Periods, an interest rate movement of one hundred basis points is based on the assumption of interest rates movement over the next 12 months;

– All assets and liabilities that reprice or mature within three months and after three months but within one year reprice or mature in the mid of the respective periods;

– 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 profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(b) Currency risk

The Group's currency risk mainly arises from foreign currency loans and deposits from customers. The Group manages currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

The Group's currency exposures as at the end of each of the Relevant Periods are as follows:

The Group and the Bank

	December 31, 2011			
	RMB	**USD**	**Others**	**Total**
		(RMB Equivalent)	*(RMB Equivalent)*	*(RMB Equivalent)*
Assets				
Cash and deposits with central bank	48,063,602	34,239	47,274	48,145,115
Deposits with banks and other financial institutions	15,009,882	492,502	733,024	16,235,408
Financial assets at fair value through profit or loss	304,893	–	–	304,893
Financial assets held under resale agreements	4,274,185	–	–	4,274,185
Loans and advances to customers	96,689,928	72,525	–	96,762,453
Financial investments *(Note (i))*	49,522,430	–	–	49,522,430
Others	5,937,016	20,881	4,411	5,962,308
Total assets	219,801,936	620,147	784,709	221,206,792
Liabilities				
Deposits from banks and other financial institutions	(13,045,834)	(92,629)	–	(13,138,463)
Placements from banks and other financial institutions	(1,510,000)	(50,407)	–	(1,560,407)
Financial assets sold under repurchase agreements	(19,142,507)	–	–	(19,142,507)
Deposits from customers	(170,324,299)	(379,086)	(771,106)	(171,474,491)
Debt securities issued	(2,100,000)	–	–	(2,100,000)
Others	(2,339,103)	(80,538)	(13,603)	(2,433,244)
Total liabilities	(208,461,743)	(602,660)	(784,709)	(209,849,112)
Net position	11,340,193	17,487	–	11,357,680
Off-balance sheet credit commitments	28,697,836	270,198	4,599	28,972,633

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(b) Currency risk (continued)

The Group

	December 31, 2012			
	RMB	USD	Others	Total
		(RMB Equivalent)	*(RMB Equivalent)*	*(RMB Equivalent)*
Assets				
Cash and deposits with central bank	53,605,774	53,065	33,232	53,692,071
Deposits with banks and other financial institutions	61,252,996	411,662	611,832	62,276,490
Placements with banks and other financial institutions	3,000,000	–	–	3,000,000
Financial assets at fair value through profit or loss	301,028	–	–	301,028
Financial assets held under resale agreements	8,929,931	–	–	8,929,931
Loans and advances to customers	111,886,919	384,283	–	112,271,202
Financial investments *(Note (i))*	66,670,890	–	–	66,670,890
Others	6,061,986	37,178	803	6,099,967
Total assets	311,709,524	886,188	645,867	313,241,579
Liabilities				
Deposits from banks and other financial institutions	(38,470,862)	(82,751)	–	(38,553,613)
Placements from banks and other financial institutions	(5,400,000)	(220,136)	–	(5,620,136)
Financial assets sold under repurchase agreements	(40,773,450)	–	–	(40,773,450)
Deposits from customers	(206,893,095)	(480,932)	(613,200)	(207,987,227)
Debt securities issued	(2,100,000)	–	–	(2,100,000)
Others	(3,448,788)	(67,874)	(32,667)	(3,549,329)
Total liabilities	(297,086,195)	(851,693)	(645,867)	(298,583,755)
Net position	14,623,329	34,495	–	14,657,824
Off-balance sheet credit commitments	41,273,203	627,726	4,161	41,905,090

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(b) Currency risk (continued)

The Group

	December 31, 2013			
	RMB	USD	Others	Total
		(RMB Equivalent)	*(RMB Equivalent)*	*(RMB Equivalent)*
Assets				
Cash and deposits with central bank	65,167,218	43,150	27,721	65,238,089
Deposits with banks and other financial institutions	61,718,576	102,064	412,593	62,233,233
Placements with banks and other financial institutions	–	61,024	–	61,024
Financial assets held under resale agreements	15,706,256	–	–	15,706,256
Loans and advances to customers	129,684,355	1,873,537	–	131,557,892
Financial investments *(Note (i))*	73,782,025	–	–	73,782,025
Others	6,619,630	226,682	7,336	6,853,648
Total assets	352,678,060	2,306,457	447,650	355,432,167
Liabilities				
Deposits from banks and other financial institutions	(41,112,956)	(214,541)	–	(41,327,497)
Placements from banks and other financial institutions	–	(1,189,968)	–	(1,189,968)
Financial assets sold under repurchase agreements	(20,919,468)	–	–	(20,919,468)
Deposits from customers	(262,101,992)	(367,818)	(442,918)	(262,912,728)
Debt securities issued	(900,000)	–	–	(900,000)
Others	(6,221,935)	(485,401)	(4,732)	(6,712,068)
Total liabilities	(331,256,351)	(2,257,728)	(447,650)	(333,961,729)
Net position	21,421,709	48,729	–	21,470,438
Off-balance sheet credit commitments	53,011,908	1,022,792	26,487	54,061,187

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(b) Currency risk (continued)

The Group

	June 30, 2014			
	RMB	**USD**	**Others**	**Total**
		(RMB Equivalent)	*(RMB Equivalent)*	*(RMB Equivalent)*
Assets				
Cash and deposits with central bank	68,321,660	48,286	23,805	68,393,751
Deposits with banks and other financial institutions	94,202,606	123,820	251,876	94,578,302
Placements with banks and other financial institutions	–	383,935	–	383,935
Financial assets held under resale agreements	15,350,344	–	–	15,350,344
Loans and advances to customers	142,083,979	3,437,594	1,773	145,523,346
Financial investments *(Note (i))*	116,603,617	–	–	116,603,617
Others	8,176,375	48,296	69,491	8,294,162
Total assets	444,738,581	4,041,931	346,945	449,127,457
Liabilities				
Deposits from banks and other financial institutions	(68,783,997)	(31,729)	–	(68,815,726)
Placements from banks and other financial institutions	–	(1,716,631)	–	(1,716,631)
Financial assets sold under repurchase agreements	(45,391,320)	–	–	(45,391,320)
Deposits from customers	(293,816,031)	(1,780,305)	(337,289)	(295,933,625)
Debt securities issued	(3,100,000)	–	–	(3,100,000)
Others	(8,117,577)	(443,190)	(7,425)	(8,568,192)
Total liabilities	(419,208,925)	(3,971,855)	(344,714)	(423,525,494)
Net position	25,529,656	70,076	2,231	25,601,963
Off-balance sheet credit commitments	69,086,578	1,116,083	26,579	70,229,240

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(b) Currency risk (continued)

The Bank

	December 31, 2012			
	RMB	**USD**	**Others**	**Total**
		(RMB Equivalent)	*(RMB Equivalent)*	*(RMB Equivalent)*
Assets				
Cash and deposits with central bank	53,541,201	53,065	33,232	53,627,498
Deposits with banks and other financial institutions	61,242,392	411,662	611,832	62,265,886
Placements with banks and other financial institutions	3,000,000	–	–	3,000,000
Financial assets at fair value through profit or loss	301,028	–	–	301,028
Financial assets held under resale agreements	8,929,931	–	–	8,929,931
Loans and advances to customers	111,414,166	384,283	–	111,798,449
Financial investments *(Note (i))*	66,670,890	–	–	66,670,890
Others	6,197,868	37,178	803	6,235,849
Total assets	311,297,476	886,188	645,867	312,829,531
Liabilities				
Deposits from banks and other financial institutions	(38,772,121)	(82,751)	–	(38,854,872)
Placements from banks and other financial institutions	(5,400,000)	(220,136)	–	(5,620,136)
Financial assets sold under repurchase agreements	(40,773,450)	–	–	(40,773,450)
Deposits from customers	(206,581,270)	(480,932)	(613,200)	(207,675,402)
Debt securities issued	(2,100,000)	–	–	(2,100,000)
Others	(3,443,554)	(67,874)	(32,667)	(3,544,095)
Total liabilities	(297,070,395)	(851,693)	(645,867)	(298,567,955)
Net position	14,227,081	34,495	–	14,261,576
Off-balance sheet credit commitments	41,273,203	627,726	4,161	41,905,090

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(b) Currency risk (continued)

The Bank

	December 31, 2013			
	RMB	**USD**	**Others**	**Total**
		(RMB Equivalent)	*(RMB Equivalent)*	*(RMB Equivalent)*
Assets				
Cash and deposits with central bank	65,106,637	43,150	27,721	65,177,508
Deposits with banks and other financial institutions	61,433,266	102,064	412,593	61,947,923
Placements with banks and other financial institutions	–	61,024	–	61,024
Financial assets held under resale agreements	15,706,256	–	–	15,706,256
Loans and advances to customers	129,186,362	1,873,537	–	131,059,899
Financial investments *(Note (i))*	73,782,025	–	–	73,782,025
Others	6,748,063	226,682	7,336	6,982,081
Total assets	351,962,609	2,306,457	447,650	354,716,716
Liabilities				
Deposits from banks and other financial institutions	(41,155,559)	(214,541)	–	(41,370,100)
Placements from banks and other financial institutions	–	(1,189,968)	–	(1,189,968)
Financial assets sold under repurchase agreements	(20,919,468)	–	–	(20,919,468)
Deposits from customers	(261,777,226)	(367,818)	(442,918)	(262,587,962)
Debt securities issued	(900,000)	–	–	(900,000)
Others	(6,216,475)	(485,401)	(4,732)	(6,706,608)
Total liabilities	(330,968,728)	(2,257,728)	(447,650)	(333,674,106)
Net position	20,993,881	48,729	–	21,042,610
Off-balance sheet credit commitments	53,011,908	1,022,792	26,487	54,061,187

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(b) Currency risk (continued)

The Bank

	June 30, 2014			
	RMB	USD	Others	Total
		(RMB Equivalent)	*(RMB Equivalent)*	*(RMB Equivalent)*
Assets				
Cash and deposits with central bank	68,257,425	48,286	23,805	68,329,516
Deposits with banks and other financial institutions	93,982,526	123,820	251,876	94,358,222
Placements with banks and other financial institutions	–	383,935	–	383,935
Financial assets held under resale agreements	15,350,344	–	–	15,350,344
Loans and advances to customers	141,550,112	3,437,594	1,773	144,989,479
Financial investments *(Note (i))*	116,603,617	–	–	116,603,617
Others	8,305,588	48,296	69,491	8,423,375
Total assets	444,049,612	4,041,931	346,945	448,438,488
Liabilities				
Deposits from banks and other financial institutions	(68,834,439)	(31,729)	–	(68,866,168)
Placements from banks and other financial institutions	–	(1,716,631)	–	(1,716,631)
Financial assets sold under repurchase agreements	(45,391,320)	–	–	(45,391,320)
Deposits from customers	(293,523,835)	(1,780,305)	(337,289)	(295,641,429)
Debt securities issued	(3,100,000)	–	–	(3,100,000)
Others	(8,114,154)	(443,190)	(7,425)	(8,564,769)
Total liabilities	(418,963,748)	(3,971,855)	(344,714)	(423,280,317)
Net position	25,085,864	70,076	2,231	25,158,171
Off-balance sheet credit commitments	69,086,578	1,116,083	26,579	70,229,240

Note:

(i) Financial investments include available-for-sale financial assets, held-to-maturity investments, and loans and receivables.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(b) Currency risk (continued)

The Group and the Bank

	December 31,			June 30,
	2011	2012	2013	2014
Change in profit after taxation and equity	**Increase/ (decrease)**	**Increase/ (decrease)**	**Increase/ (decrease)**	**Increase/ (decrease)**
Up 100 bps change of foreign exchange rate	21	41	60	88
Down 100 bps change of foreign exchange rate	(21)	(41)	(60)	(88)

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions as set out below:

– The foreign exchange sensitivity is the gain and loss recognised as a result of one hundred basis points fluctuation in the foreign currency exchange rates against RMB;

– The fluctuation of exchange rates by one hundred basis points is based on the assumption of exchange rates movement over the next 12 months;

– The exchange rates against RMB for the US dollars and other foreign currencies change in the same direction simultaneously, and thus other foreign currencies are converted into US dollars through sensitivity analysis;

– Other variables (including interest rates) remain unchanged; and

– The analysis does not take into account the effect of risk management measures taken by the Group.

Due to the assumptions adopted, actual changes in the Group's profit or loss and equity resulting from the increase or decrease in foreign exchange rates may vary from the estimated results of this sensitivity analysis.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(3) 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 meet repayment obligations or sustain its asset business. This risk exists even if a bank's solvency remains strong.

The Group have implemented the centralised management of the bank-wide liquidity risk by the head office, and established the liquidity risk management framework which mainly comprises the Assets and Liabilities Management Committee, the Risk Control Center and the Planning and Accounting Management Department at the head office. The responsibilities of them are as following:

– the Assets and Liabilities Management Committee is the decision-making body for liquidity risk management and is responsible for formulating the guidelines and policies for liquidity risk management;

– the Risk Control Center is the liquidity risk management department and is responsible for formulating, implementing and evaluating relevant systems, setting the bank-wide risk warning limits and guiding various business departments to manage liquidity risk on a daily basis; and

– the Planning and Accounting Management Department is the implementation department for liquidity risk management and is responsible for implementing relevant liquidity risk management policies, monitoring various liquidity risk indicators, regularly carrying out risk analysis and reporting to the Risk Control Center and the Assets and Liabilities Management Committee.

The Group manages liquidity risk by monitoring the maturities of the assets and liabilities, while actively monitoring multiple liquidity indicators, including loan to deposit ratio, liquidity ratio, reserve ratio, inter-bank loan to saving ratio, loan quality ratio and liquidity gap ratio. Meanwhile, the Group forecasts the liquidity of each branch on a periodic basis. The Group conducts liquidity analysis on a monthly basis, performs stress testing on liquidity risk on a quarterly basis.

The Group also formulates liquidity risk emergency plan to ensure sufficient liquidity under various market conditions.

A substantial portion of the Group's assets are funded by deposits from customers. These deposits from customers, which have been growing in recent years, are widely diversified in terms of type and duration and represent a major source of funds.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(3) Liquidity risk (continued)

(a) Maturity analysis

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 and the Bank

	December 31, 2011							
	Indefinite *(Note (ii))*	Repayable on demand *(Note (ii))*	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
Assets								
Cash and deposits with central bank	29,677,146	18,467,969	–	–	–	–	–	48,145,115
Deposit with banks and other financial institutions	–	586,959	6,921,406	3,377,161	5,349,882	–	–	16,235,408
Financial assets at fair value through profit or loss	–	–	–	–	–	304,893	–	304,893
Financial assets held under resale agreements	–	–	1,715,403	2,449,435	109,347	–	–	4,274,185
Loans and advances to customers	290,806	3,939	3,458,088	6,207,852	40,522,343	42,785,623	3,493,802	96,762,453
Financial investments *(Note (i))*	174,138	–	–	300,000	5,357,010	16,201,310	27,489,972	49,522,430
Others	4,643,070	272,867	356,672	90,997	598,702	–	–	5,962,308
Total assets	34,785,160	19,331,734	12,451,569	12,425,445	51,937,284	59,291,826	30,983,774	221,206,792
Liabilities								
Deposits from banks and other financial institutions	–	(7,367,573)	(1,480,400)	(2,190,490)	(1,100,000)	(1,000,000)	–	(13,138,463)
Placements from banks and other financial institutions	–	–	(1,450,000)	(110,407)	–	–	–	(1,560,407)
Financial assets sold under repurchase agreements	–	–	(8,693,400)	(10,449,107)	–	–	–	(19,142,507)
Deposits from customers	–	(90,909,456)	(3,535,005)	(14,661,427)	(19,014,453)	(40,980,247)	(2,373,903)	(171,474,491)
Debt securities issued	–	–	–	–	–	(1,200,000)	(900,000)	(2,100,000)
Others	–	(1,057,256)	(412,053)	(263,533)	(208,199)	(378,734)	(113,469)	(2,433,244)
Total liabilities	–	(99,334,285)	(15,570,858)	(27,674,964)	(20,322,652)	(43,558,981)	(3,387,372)	(209,849,112)
Long/(short) position	34,785,160	(80,002,551)	(3,119,289)	(15,249,519)	31,614,632	15,732,845	27,596,402	11,357,680

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(3) Liquidity risk (continued)

(a) Maturity analysis (continued)

The Group

	December 31, 2012							
	Indefinite *(Note (ii))*	Repayable on demand *(Note (ii))*	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
Assets								
Cash and deposits with central bank	38,177,096	15,514,975	–	–	–	–	–	53,692,071
Deposit with banks and other financial institutions	–	939,429	29,479,032	25,650,002	6,208,027	–	–	62,276,490
Placement with banks and other financial institutions	–	–	3,000,000	–	–	–	–	3,000,000
Financial assets at fair value through profit or loss	–	–	–	–	–	301,028	–	301,028
Financial assets held under-resale agreements	–	–	2,590,203	5,197,555	1,142,173	–	–	8,929,931
Loans and advances to customers	1,271,101	322,073	8,248,920	7,176,723	44,354,015	47,165,636	3,732,734	112,271,202
Financial investments *(Note (i))*	176,138	–	327,525	1,830,563	10,520,279	26,477,582	27,338,803	66,670,890
Others	4,395,943	288,892	479,239	553,720	382,173	–	–	6,099,967
Total assets	44,020,278	17,065,369	44,124,919	40,408,563	62,606,667	73,944,246	31,071,537	313,241,579
Liabilities								
Deposits from banks and other financial institutions	–	(11,989,413)	(15,594,200)	(7,710,000)	(2,920,000)	(340,000)	–	(38,553,613)
Placements from banks and other financial institutions	–	–	(5,620,136)	–	–	–	–	(5,620,136)
Financial assets sold under repurchase agreements	–	–	(36,869,330)	(3,904,120)	–	–	–	(40,773,450)
Deposits from customers	–	(86,925,612)	(8,958,960)	(17,943,782)	(63,807,215)	(28,321,471)	(2,030,187)	(207,987,227)
Debt securities issued	–	–	–	–	(1,200,000)	–	(900,000)	(2,100,000)
Others	–	(1,669,050)	(475,025)	(294,660)	(659,361)	(349,833)	(101,400)	(3,549,329)
Total liabilities	–	(100,584,075)	(67,517,651)	(29,852,562)	(68,586,576)	(29,011,304)	(3,031,587)	(298,583,755)
Long/(short) position	44,020,278	(83,518,706)	(23,392,732)	10,556,001	(5,979,909)	44,932,942	28,039,950	14,657,824

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(3) Liquidity risk (continued)

(a) Maturity analysis (continued)

The Group

	December 31, 2013							
	Indefinite *(Note (ii))*	Repayable On demand *(Note (ii))*	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
Assets								
Cash and deposits with central bank	46,023,261	19,214,828	–	–	–	–	–	65,238,089
Deposit with banks and other financial institutions	–	522,485	6,561,383	4,039,865	13,551,500	37,558,000	–	62,233,233
Placement with banks and other financial institutions	–	–	–	–	61,024	–	–	61,024
Financial assets held under resale agreements	–	–	10,136,796	–	5,569,460	–	–	15,706,256
Loans and advances to customers	605,976	73,400	6,425,921	12,110,881	59,277,915	48,001,283	5,062,516	131,557,892
Financial investments *(Note (i))*	115,400	–	30,000	4,882,950	15,966,938	26,242,126	26,544,611	73,782,025
Others	4,368,329	110,042	650,221	602,038	839,348	283,053	617	6,853,648
Total assets	51,112,966	19,920,755	23,804,321	21,635,734	95,266,185	112,084,462	31,607,744	355,432,167
Liabilities								
Deposits from banks and other financial institutions	–	(5,853,807)	(5,950,000)	(8,360,000)	(12,863,690)	(8,300,000)	–	(41,327,497)
Placements from banks and other financial institutions	–	–	(305,120)	(610,240)	(274,608)	–	–	(1,189,968)
Financial assets sold under repurchase agreements	–	–	(2,630,200)	(5,468,764)	(12,820,504)	–	–	(20,919,468)
Deposits from customers	–	(90,593,095)	(17,857,320)	(20,037,082)	(85,716,341)	(48,208,869)	(500,021)	(262,912,728)
Debt securities issued	–	–	–	–	–	–	(900,000)	(900,000)
Others	–	(2,407,037)	(987,845)	(665,747)	(1,685,002)	(829,459)	(136,978)	(6,712,068)
Total liabilities	–	(98,853,939)	(27,730,485)	(35,141,833)	(113,360,145)	(57,338,328)	(1,536,999)	(333,961,729)
Long/(short) position	51,112,966	(78,933,184)	(3,926,164)	(13,506,099)	(18,093,960)	54,746,134	30,070,745	21,470,438

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(3) Liquidity risk (continued)

(a) Maturity analysis (continued)

The Group

	June 30, 2014							
	Indefinite *(Note (ii))*	Repayable On demand *(Note (ii))*	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
Assets								
Cash and deposits with central bank	50,276,086	18,117,665	–	–	–	–	–	68,393,751
Deposit with banks and other financial institutions	–	555,813	11,495,744	15,533,839	28,880,906	38,112,000	–	94,578,302
Placement with banks and other financial institutions	–	–	369,168	14,767	–	–	–	383,935
Financial assets held under resale agreements	–	–	2,784,778	4,207,540	8,358,026	–	–	15,350,344
Loans and advances to customers	631,944	314,615	6,757,777	12,591,448	63,368,935	55,920,888	5,937,739	145,523,346
Financial investments *(Note (i))*	275,925	–	4,314,217	11,562,636	42,798,493	30,236,519	27,415,827	116,603,617
Others	3,920,796	215,999	1,987,712	403,080	882,964	882,994	617	8,294,162
Total assets	55,104,751	19,204,092	27,709,396	44,313,310	144,289,324	125,152,401	33,354,183	449,127,457
Liabilities								
Deposits from banks and other financial institutions	–	(5,544,678)	(10,229,690)	(14,016,428)	(29,173,930)	(9,851,000)	–	(68,815,726)
Placements from banks and other financial institutions	–	–	(430,696)	(695,266)	(590,669)	–	–	(1,716,631)
Financial assets sold under repurchase agreements	–	–	(42,060,120)	(1,097,500)	(2,233,700)	–	–	(45,391,320)
Deposits from customers	–	(86,749,361)	(24,045,084)	(21,220,450)	(84,589,865)	(78,628,857)	(700,008)	(295,933,625)
Debt securities issued	–	–	–	–	–	–	(3,100,000)	(3,100,000)
Others	–	(897,725)	(792,929)	(1,496,875)	(2,834,270)	(2,415,483)	(130,910)	(8,568,192)
Total liabilities	–	(93,191,764)	(77,558,519)	(38,526,519)	(119,422,434)	(90,895,340)	(3,930,918)	(423,525,494)
Long/(short) position	55,104,751	(73,987,672)	(49,849,123)	5,786,791	24,866,890	34,257,061	29,423,265	25,601,963

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(3) Liquidity risk (continued)

(a) Maturity analysis (continued)

The Bank

	December 31, 2012							
	Indefinite *(Note (ii))*	Repayable On demand *(Note (ii))*	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
Assets								
Cash and deposits with central bank	38,147,910	15,479,588	–	–	–	–	–	53,627,498
Deposit with banks and other financial institutions	–	937,825	29,479,032	25,650,002	6,199,027	–	–	62,265,886
Placement with banks and other financial institutions	–	–	3,000,000	–	–	–	–	3,000,000
Financial assets at fair value through profit or loss	–	–	–	–	–	301,028	–	301,028
Financial assets held under resale agreements	–	–	2,590,203	5,197,555	1,142,173	–	–	8,929,931
Loans and advances to customers	1,257,384	322,073	8,177,027	7,103,219	44,072,922	47,133,090	3,732,734	111,798,449
Financial investments *(Note (i))*	176,138	–	327,525	1,830,563	10,520,279	26,477,582	27,338,803	66,670,890
Others	4,534,089	288,757	477,129	553,711	382,163	–	–	6,235,849
Total assets	44,115,521	17,028,243	44,050,916	40,335,050	62,316,564	73,911,700	31,071,537	312,829,531
Liabilities								
Deposits from banks and other financial institutions	–	(12,183,452)	(15,671,420)	(7,740,000)	(2,920,000)	(340,000)	–	(38,854,872)
Placements from banks and other financial institutions	–	–	(5,620,136)	–	–	–	–	(5,620,136)
Financial assets sold under repurchase agreements	–	–	(36,869,330)	(3,904,120)	–	–	–	(40,773,450)
Deposits from customers	–	(86,682,218)	(8,958,960)	(17,943,782)	(63,785,138)	(28,275,117)	(2,030,187)	(207,675,402)
Debt securities issued	–	–	–	–	(1,200,000)	–	(900,000)	(2,100,000)
Others	–	(1,665,051)	(474,004)	(294,417)	(659,390)	(349,833)	(101,400)	(3,544,095)
Total liabilities	–	(100,530,721)	(67,593,850)	(29,882,319)	(68,564,528)	(28,964,950)	(3,031,587)	(298,567,955)
Long/(short) position	44,115,521	(83,502,478)	(23,542,934)	10,452,731	(6,247,964)	44,946,750	28,039,950	14,261,576

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(3) Liquidity risk (continued)

(a) Maturity analysis (continued)

The Bank

	December 31, 2013							
	Indefinite *(Note (ii))*	Repayable On demand *(Note (ii))*	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
Assets								
Cash and deposits with central bank	45,974,937	19,202,571	–	–	–	–	–	65,177,508
Deposit with banks and other financial institutions	–	508,675	6,561,383	4,039,865	13,280,000	37,558,000	–	61,947,923
Placement with banks and other financial institutions	–	–	–	–	61,024	–	–	61,024
Financial assets held under resale agreements	–	–	10,136,796	–	5,569,460	–	–	15,706,256
Loans and advances to customers	590,849	73,400	6,328,694	12,070,300	58,953,420	47,980,720	5,062,516	131,059,899
Financial investments *(Note (i))*	115,400	–	30,000	4,882,950	15,966,938	26,242,126	26,544,611	73,782,025
Others	4,498,815	109,568	649,037	602,011	839,207	282,826	617	6,982,081
Total assets	51,180,001	19,894,214	23,705,910	21,595,126	94,670,049	112,063,672	31,607,744	354,716,716
Liabilities								
Deposits from banks and other financial institutions	–	(5,896,410)	(5,950,000)	(8,360,000)	(12,863,690)	(8,300,000)	–	(41,370,100)
Placements from banks and other financial institutions	–	–	(305,120)	(610,240)	(274,608)	–	–	(1,189,968)
Financial assets sold under repurchase agreements	–	–	(2,630,200)	(5,468,764)	(12,820,504)	–	–	(20,919,468)
Deposits from customers	–	(90,329,445)	(17,857,320)	(20,037,082)	(85,716,341)	(48,147,753)	(500,021)	(262,587,962)
Debt securities issued	–	–	–	–	–	–	(900,000)	(900,000)
Others	–	(2,402,614)	(986,839)	(665,716)	(1,685,002)	(829,459)	(136,978)	(6,706,608)
Total liabilities	–	(98,628,469)	(27,729,479)	(35,141,802)	(113,360,145)	(57,277,212)	(1,536,999)	(333,674,106)
Long/(short) position	51,180,001	(78,734,255)	(4,023,569)	(13,546,676)	(18,690,096)	54,786,460	30,070,745	21,042,610

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(3) Liquidity risk (continued)

(a) Maturity analysis (continued)

The Bank

	June 30, 2014							
	Indefinite *(Note (ii))*	Repayable On demand *(Note (ii))*	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
Assets								
Cash and deposits with central bank	50,236,403	18,093,113	–	–	–	–	–	68,329,516
Deposit with banks and other financial institutions	–	555,813	11,495,744	15,313,759	28,880,906	38,112,000	–	94,358,222
Placement with banks and other financial institutions	–	–	369,168	14,767	–	–	–	383,935
Financial assets held under resale agreements	–	–	2,784,778	4,207,540	8,358,026	–	–	15,350,344
Loans and advances to customers	619,477	300,447	6,716,013	12,503,316	63,023,007	55,889,480	5,937,739	144,989,479
Financial investments *(Note (i))*	275,925	–	4,314,217	11,562,636	42,798,493	30,236,519	27,415,827	116,603,617
Others	4,052,773	214,237	1,986,723	403,080	882,951	882,994	617	8,423,375
Total assets	55,184,578	19,163,610	27,666,643	44,005,098	143,943,383	125,120,993	33,354,183	448,438,488
Liabilities								
Deposits from banks and other financial institutions	–	(5,544,678)	(10,229,690)	(14,066,870)	(29,173,930)	(9,851,000)	–	(68,866,168)
Placements from banks and other financial institutions	–	–	(430,696)	(695,266)	(590,669)	–	–	(1,716,631)
Financial assets sold under repurchase agreements	–	–	(42,060,120)	(1,097,500)	(2,233,700)	–	–	(45,391,320)
Deposits from customers	–	(86,525,614)	(24,036,737)	(21,206,659)	(84,549,181)	(78,623,230)	(700,008)	(295,641,429)
Debt securities issued	–	–	–	–	–	–	(3,100,000)	(3,100,000)
Others	–	(895,507)	(792,904)	(1,496,645)	(2,833,848)	(2,414,955)	(130,910)	(8,564,769)
Total liabilities	–	(92,965,799)	(77,550,147)	(38,562,940)	(119,381,328)	(90,889,185)	(3,930,918)	(423,280,317)
Long/(short) position	55,184,578	(73,802,189)	(49,883,504)	5,442,158	24,562,055	34,231,808	29,423,265	25,158,171

Notes:

(i) Financial investments include available-for-sale financial assets, held-to-maturity investments, and loans and receivables.

(ii) For cash and deposits with central bank, the indefinite period amount represents statutory deposit reserves and fiscal deposits maintained with the PBOC. Equity investments are reported under indefinite period. For loans and advances to customers, the "indefinite" period amount represents the balance being impaired or overdue for more than one month, and the balance not impaired but overdue within one month is included in "repayable on demand".

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(3) Liquidity risk (continued)

(b) Analysis on contractual undiscounted cash flows of financial liabilities

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities at the end of each of the Relevant Periods:

The Group and the Bank

	December 31, 2011					
	Contractual undiscounted cash flow	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 and indefinite
Deposits from banks and other financial institutions	(13,293,024)	(8,866,250)	(2,234,069)	(1,179,305)	(1,013,400)	–
Placements from banks and other financial institutions	(1,562,974)	(1,451,058)	(111,916)	–	–	–
Financial assets sold under repurchase agreements	(19,356,098)	(8,776,500)	(10,579,598)	–	–	–
Deposits from customers	(175,652,597)	(94,446,109)	(14,670,764)	(19,489,772)	(44,136,802)	(2,909,150)
Debt securities issued	(2,817,000)	–	–	(124,500)	(1,500,000)	(1,192,500)
Other financial liabilities	(427,444)	(336,266)	(80,023)	(11,155)	–	–
Total non-derivative financial liabilities	(213,109,137)	(113,876,183)	(27,676,370)	(20,804,732)	(46,650,202)	(4,101,650)

The Group

	December 31, 2012					
	Contractual undiscounted cash flow	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 and indefinite
Deposits from banks and other financial institutions	(38,740,670)	(27,576,465)	(7,801,167)	(3,015,048)	(347,990)	–
Placements from banks and other financial institutions	(5,625,370)	(5,625,370)	–	–	–	–
Financial assets sold under repurchase agreements	(40,929,972)	(36,991,839)	(3,938,133)	–	–	–
Deposits from customers	(216,036,581)	(96,432,790)	(18,499,793)	(68,615,636)	(30,340,199)	(2,148,163)
Debt securities issued	(2,692,500)	–	–	(1,324,500)	(234,000)	(1,134,000)
Other financial liabilities	(365,937)	(277,438)	(62,744)	(25,755)	–	–
Total non-derivative financial liabilities	(304,391,030)	(166,903,902)	(30,301,837)	(72,980,939)	(30,922,189)	(3,282,163)

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(3) Liquidity risk (continued)

(b) Analysis on contractual undiscounted cash flows of financial liabilities (continued)

The Group

	December 31, 2013					
	Contractual undiscounted cash flow	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 and indefinite
Deposits from banks and other financial institutions	(43,999,910)	(11,913,583)	(8,714,220)	(13,731,657)	(9,640,450)	–
Placements from banks and other financial institutions	(1,206,602)	(305,917)	(620,710)	(279,975)	–	–
Financial assets sold under repurchase agreements	(21,598,671)	(2,634,735)	(5,596,983)	(13,366,953)	–	–
Deposits from customers	(275,423,822)	(109,738,586)	(20,888,016)	(89,139,917)	(55,128,176)	(529,127)
Debt securities issued	(1,368,000)	–	–	(58,500)	(234,000)	(1,075,500)
Other financial liabilities	(940,647)	(597,011)	(115,590)	(228,046)	–	–
Total non-derivative financial liabilities	(344,537,652)	(125,189,832)	(35,935,519)	(116,805,048)	(65,002,626)	(1,604,627)

	June 30, 2014					
	Contractual undiscounted cash flow	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 and indefinite
Deposits from banks and other financial institutions	(70,939,664)	(16,067,644)	(14,403,456)	(30,470,561)	(9,998,003)	–
Placements from banks and other financial institutions	(1,737,188)	(433,342)	(701,898)	(601,948)	–	–
Financial assets sold under repurchase agreements	(45,781,088)	(42,249,100)	(1,154,470)	(2,377,518)	–	–
Deposits from customers	(315,288,887)	(111,655,038)	(21,963,393)	(88,931,312)	(91,915,096)	(824,048)
Debt securities issued	(4,927,600)	–	–	(194,460)	(777,840)	(3,955,300)
Other financial liabilities	(1,116,480)	(376,526)	(83,857)	(656,097)	–	–
Total non-derivative financial liabilities	(439,790,907)	(170,781,650)	(38,307,074)	(123,231,896)	(102,690,939)	(4,779,348)

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(3) Liquidity risk (continued)

(b) Analysis on contractual undiscounted cash flows of financial liabilities (continued)

The Bank

	December 31, 2012					
	Contractual undiscounted cash flow	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 and indefinite
Deposits from banks and other financial institutions	(39,132,020)	(27,937,490)	(7,831,492)	(3,015,048)	(347,990)	–
Placements from banks and other financial institutions	(5,625,370)	(5,625,370)	–	–	–	–
Financial assets sold under repurchase agreements	(40,929,972)	(36,991,839)	(3,938,133)	–	–	–
Deposits from customers	(215,724,755)	(96,178,395)	(18,499,793)	(68,604,559)	(30,293,845)	(2,148,163)
Debt securities issued	(2,692,500)	–	–	(1,324,500)	(234,000)	(1,134,000)
Other financial liabilities	(365,524)	(277,287)	(62,482)	(25,755)	–	–
Total non-derivative financial liabilities	(304,470,141)	(167,010,381)	(30,331,900)	(72,969,862)	(30,875,835)	(3,282,163)

	December 31, 2013					
	Contractual undiscounted cash flow	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 and indefinite
Deposits from banks and other financial institutions	(44,042,513)	(11,956,186)	(8,714,220)	(13,731,657)	(9,640,450)	–
Placements from banks and other financial institutions	(1,206,602)	(305,917)	(620,710)	(279,975)	–	–
Financial assets sold under repurchase agreements	(21,598,671)	(2,634,735)	(5,596,983)	(13,366,953)	–	–
Deposits from customers	(264,991,185)	(108,187,208)	(20,040,614)	(86,181,305)	(50,052,931)	(529,127)
Debt securities issued	(1,368,000)	–	–	(58,500)	(234,000)	(1,075,500)
Other financial liabilities	(940,455)	(596,850)	(115,559)	(228,046)	–	–
Total non-derivative financial liabilities	(334,147,426)	(123,680,896)	(35,088,086)	(113,846,436)	(59,927,381)	(1,604,627)

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

The Bank (continued)

(b) Analysis on contractual undiscounted cash flows of financial liabilities (continued)

The Bank

	June 30, 2014					
	Contractual undiscounted cash flow	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 and indefinite
Deposits from banks and other financial institutions	(70,990,105)	(16,067,644)	(14,453,897)	(30,470,561)	(9,998,003)	–
Placements from banks and other financial institutions	(1,737,188)	(433,342)	(701,898)	(601,948)	–	–
Financial assets sold under repurchase agreements	(45,781,088)	(42,249,100)	(1,154,470)	(2,377,518)	–	–
Deposits from customers	(314,994,257)	(111,428,321)	(21,963,047)	(88,930,069)	(91,914,840)	(757,980)
Debt securities issued	(4,927,600)	–	–	(194,460)	(777,840)	(3,955,300)
Other financial liabilities	(1,116,466)	(376,515)	(83,854)	(656,097)	–	–
Total non-derivative financial liabilities	(439,546,704)	(170,554,922)	(38,357,166)	(123,230,653)	(102,690,683)	(4,713,280)

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might vary from actual results.

(4) Operational risk

Operational risk refers to the risk of losses associated with internal process deficiencies, personnel mistakes and information system failures, or impact from other external events.

The Group established "Three Lines of Defense for Risk Management" on the basis of the main prevention and control organisations consisting of each business department, the Risk Control Center, the Compliance Department and the Internal Audit Department and also set up operational risk reporting mechanism between the Risk Control Center and business units, the head office and branches.

The Group has formulated operational risk management policies and procedures, aiming to identify, assess, monitor, control and mitigate the operational risk, and reduce losses associated with the operational risk.

The Group's measures to manage the operational risk mainly include:

– establishing and improving the risk management system, strictly separating responsibilities of the front, middle and back office, and optimising business procedures and risk management procedures;

– making use of risk alert system and paying attention to risk position and early risk alert on each aspect of business; updating operational risk guidelines from time to time; carrying out centralised risk management on major business areas so as to reduce business operational risk;

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(4) Operational risk (continued)

- establishing a supervision system combining "on-site and off-site", "regular and special", "self and external" examinations, identifying, monitoring, collecting risk factors and risk signals in the course of business operations, using centralised operational risk management tools, supervising and evaluating the sufficiency and effectiveness of operational risk management;

- establishing an expertise grade appraisal system for all employees, and selecting qualified employees through strict qualification examination and professional evaluation in accordance with the expertise and skills required by the various positions; and

- establishing a mechanism for emergency management and business continuity.

(5) Capital management

The Group manages capital mainly through capital adequacy ratio and return on equity ratio. Capital adequacy ratio is at the core of the Group's capital management, reflecting capacity of the Group for prudent operation and risk prevention. The return on equity ratio reflects the profitability of equity. The main objective of capital management is to maintain a balanced reasonable capital amount and structure in line with the business development and expected return on equity.

The Group follows the principles below with regard to capital management:

- monitor levels of asset quality based on the Group's business strategy and maintain adequate capital to support the implementation of the Group's strategic development plan and meet the regulatory requirements; and

- effectively identify, quantify, monitor, mitigate and control the major risks to which the Group is exposed, and maintain the appropriate level of capital after considering the Group's risk exposure and risk management needs.

The Group monitors the capital adequacy ratio periodically and adjusts the capital management plan when necessary to ensure the capital adequacy ratio meets both the regulatory requirements and business development demand.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(5) Capital management (continued)

The Group calculates the capital adequacy ratios as at December 31, 2011 and 2012 in accordance with the Regulation Governing Capital Adequacy of Commercial Banks (商業銀行資本充足率管理辦法) issued by the CBRC in 2004 as follows:

The Group

		December 31,	
	Note	**2011**	**2012**
Core capital			
– Share capital		3,696,005	3,696,005
– Qualifying portion of capital reserve		2,022,383	2,022,383
– Surplus reserve and general reserve		1,991,271	2,447,568
– Retained earnings	*39(5)(a)*	3,032,299	6,072,628
– Non-controlling interests		–	391,757
– Others		(974)	40
		10,740,984	14,630,381
less: 50% of unconsolidated equity investments		(281,978)	(221,797)
Net core capital		10,459,006	14,408,584
Supplementary capital			
– General provision for loan impairment		1,156,698	1,460,731
– Long term subordinated debts		2,100,000	2,100,000
– Others		659,178	549,352
		3,915,876	4,110,083
Total capital base before deductions		14,656,860	18,740,464
Deductions			
– Unconsolidated equity investments		(563,957)	(443,594)
Total capital base after deductions		14,092,903	18,296,870
Risk weighted assets	*39(5)(b)*	117,213,374	153,485,649
Core capital adequacy ratio		8.92%	9.39%
Capital adequacy ratio		12.02%	11.92%

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RISK MANAGEMENT (continued)

(5) Capital management (continued)

The Group calculates the capital adequacy ratios as at December 31, 2013 and June 30, 2014 in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) issued by the CBRC in 2012 and relevant requirements promulgated by the CBRC as follows:

The Group

	Note	**December 31, 2013**	**June 30, 2014**
Total core tier-one capital			
– Share capital		4,096,005	4,396,005
– Qualifying portion of capital reserve		3,822,383	5,172,383
– Surplus reserve		1,709,163	2,193,565
– General reserve		3,317,751	3,545,649
– Investment revaluation reserve		(251,534)	135,805
– Retained earnings		8,358,813	9,730,476
– Qualifying portions of non-controlling interests		412,750	346,624
– Others		2,830	993
Core tier-one capital		21,468,161	25,521,500
Core tier-one capital deductions		(53,033)	(49,955)
Net core tier-one capital		21,415,128	25,471,545
Other tier-one capital		–	–
Net tier-one capital		21,415,128	25,471,545
Tier two capital			
– Qualifying portions of tier-two capital instruments issued		810,000	2,920,000
– Surplus provision for loan impairment		1,529,072	1,881,587
– Core tier-two capital deductions		–	–
Net tier-two capital		2,339,072	4,801,587
Net capital base		23,754,200	30,273,132
Total risk weighted assets	*39(5)(c)*	212,674,655	260,771,211
Core tier-one capital adequacy ratio		10.07%	9.77%
Tier-one capital adequacy ratio		10.07%	9.77%
Capital adequacy ratio		11.17%	11.61%

Notes:

(a) Dividends proposed to be declared by the Bank have been deducted in calculating the net capital and net core capital.

(b) The balances of risk-weighted assets include an amount equal to 12.5 times the Group's market risk capital and the Group's operational risk capital.

(c) Both the on-balance and off-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 as well as any eligible collateral or guarantees.

(d) Pursuant to the Notification on Matters Related to the Implementation of the Regulation Governing Capital of Commercial Banks (Provisional) in the Transitional Period (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), the CBRC requires that the capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio for commercial banks shall not fall below 8.5%, 6.5% and 5.5%, respectively.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

40 FAIR VALUE

(1) Methods and assumptions for measurement of fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Group has established policies and internal controls with respect to the measurement of fair values, specify the framework of fair value measurement of financial instruments, fair value measurement methodologies and procedures.

The Group adopts the following methods and assumptions when evaluating fair values:

(a) Debt securities investments

The fair values of debt securities that are traded in an active market are based on their quoted market prices in an active market at the end of each of the Relevant Periods.

(b) 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 each of the Relevant Periods.

(c) 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 each 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 each of the Relevant Periods.

(2) Financial instruments recorded at fair value

The following tables show an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

The Group and the Bank

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
– debt instruments	–	304,893	–	304,893
Available-for-sale financial assets				
– debt instruments	–	17,180,491	–	17,180,491
– investment management products under trust scheme	–	1,310,565	–	1,310,565
Total	–	18,795,949	–	18,795,949

During the year ended December 31, 2011, there were no significant transfers between instruments in Level 1 and Level 2.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

40 FAIR VALUE (continued)

(2) Financial instruments recorded at fair value (continued)

The Group and the Bank

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
– debt instruments	–	301,028	–	301,028
Available-for-sale financial assets				
– debt instruments	–	22,480,073	–	22,480,073
Total	–	22,781,101	–	22,781,101

During the year ended December 31, 2012, there were no significant transfers between instruments in Level 1 and Level 2.

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
– debt instruments	–	–	–	–
Available-for-sale financial assets				
– debt instruments	–	12,954,379	–	12,954,379
Total	–	12,954,379	–	12,954,379

During the year ended December 31, 2013, there were no significant transfers between instruments in Level 1 and Level 2.

	June 30, 2014			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
– debt instruments	–	–	–	–
Available-for-sale financial assets				
– debt instruments	–	19,127,834	–	19,127,834
Total	–	19,127,834	–	19,127,834

During the six months ended June 30, 2014, there were no significant transfers between instruments in Level 1 and Level 2.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

40 FAIR VALUE (continued)

(3) Fair value of financial assets and liabilities not carried at fair value

(i) Cash and deposits with central bank, deposits and placements with/from banks and other financial institutions, financial assets held under resale agreements and sold under repurchase agreements and financial investments – loans and receivables

Given that these financial assets and financial liabilities mainly mature within one year or adopt floating interest rates, their carrying amounts approximate their fair value.

(ii) Loans and advances to customers

The fair value of loans and advances to customers is estimated based on future cash flows expected to be received which is discounted at current market rates. Majority of the loans and advances to customers are repriced at least annually to the market rate. Accordingly, their carrying values approximate their fair values.

(iii) Held-to-maturity investments

The fair value for held-to-maturity investments is based on "bid" market prices or brokers'/dealers' price quotations. If relevant market information is not available, the fair value is based on quote price of security products with similar characteristics such as credit risk, maturities and yield.

(iv) Deposits from customers

The fair value of checking, savings and short-term money market accounts is the amount payable on demand at the end of each of the Relevant Periods. The fair value of fixed interest-bearing deposits without quoted market prices is estimated based on discounted cash flows using interest rates for new deposits with similar remaining maturities.

(v) Debt securities issued

Fair values of debt securities issued are based on quoted market prices. For debt securities where quoted market prices are not available, a discounted cash flow model is used to calculate their fair value using current market rates appropriate for debt securities with similar remaining maturities.

The following tables summarise the carrying amounts, the fair value and the analysis by level of the fair value hierarchy of held-to-maturity investments, deposits from customers and subordinated bonds:

The Group and the Bank

	December 31, 2011				
	Carrying amount	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets					
Held-to-maturity investments	28,717,789	28,769,479	–	28,769,479	–
Total	28,717,789	28,769,479	–	28,769,479	–
Financial liabilities					
Deposits from customers	171,474,491	166,407,100	–	166,407,100	–
Debt securities issued – subordinated bonds	2,100,000	1,968,880	–	1,968,880	–
Total	173,574,491	168,375,980	–	168,375,980	–

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

40 FAIR VALUE (continued)

(3) Fair value of financial assets and liabilities not carried at fair value (continued)

The Group

	December 31, 2012				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	28,050,055	27,867,332	–	27,867,332	–
Total	28,050,055	27,867,332	–	27,867,332	–
Financial liabilities					
Deposits from customers	207,987,227	207,480,190	–	207,480,190	–
Debt securities issued – subordinated bonds	2,100,000	2,076,393	–	2,076,393	–
Total	210,087,227	209,556,583	–	209,556,583	–

	December 31, 2013				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	35,399,657	33,295,711	–	33,295,711	–
Total	35,399,657	33,295,711	–	33,295,711	–
Financial liabilities					
Deposits from customers	262,912,728	259,817,042	–	259,817,042	–
Debt securities issued – subordinated bonds	900,000	860,469	–	860,469	–
Total	263,812,728	260,677,511	–	260,677,511	–

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

40 FAIR VALUE (continued)

(3) Fair value of financial assets and liabilities not carried at fair value (continued)

The Group

	June 30, 2014				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	41,519,756	40,521,063	–	40,521,063	–
Total	41,519,756	40,521,063	–	40,521,063	–
Financial liabilities					
Deposits from customers	295,933,625	280,188,714	–	280,188,714	–
Debt securities issued – subordinated bonds	3,100,000	3,091,960	–	3,091,960	–
Total	299,033,625	283,280,674	–	283,280,674	–

The Bank

	December 31, 2012				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	28,050,055	27,867,332	–	27,867,332	–
Total	28,050,055	27,867,332	–	27,867,332	–
Financial liabilities					
Deposits from customers	207,675,402	207,178,729	–	207,178,729	–
Debt securities issued – subordinated bonds	2,100,000	2,076,393	–	2,076,393	–
Total	209,775,402	209,255,122	–	209,255,122	–

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

40 FAIR VALUE (continued)

(3) Fair value of financial assets and liabilities not carried at fair value (continued)

The Bank

	December 31, 2013				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	35,399,657	33,295,711	–	33,295,711	–
Total	35,399,657	33,295,711	–	33,295,711	–
Financial liabilities					
Deposits from customers	262,587,962	250,645,388	–	250,645,388	–
Debt securities issued – subordinated bonds	900,000	860,469	–	860,469	–
Total	263,487,962	251,505,857	–	251,505,857	–

	June 30, 2014				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	41,519,756	40,521,063	–	40,521,063	–
Total	41,519,756	40,521,063	–	40,521,063	–
Financial liabilities					
Deposits from customers	295,641,429	280,155,383	–	280,155,383	–
Debt securities issued – subordinated bonds	3,100,000	3,091,960	–	3,091,960	–
Total	298,741,429	283,247,343	–	283,247,343	–

41 COMMITMENTS AND CONTINGENT LIABILITIES

(1) Credit commitments

The Group's credit commitments take the form of bank acceptances, credit card limits, letters of credit and letters of guarantees.

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 its customers. The contractual amounts of credit card 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.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

41 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(1) Credit commitments (continued)

The Group and the Bank

	December 31,			June 30,
	2011	2012	2013	2014
Bank acceptances	27,819,093	39,521,687	49,746,255	63,991,741
Unused credit card commitments	839,186	1,167,909	1,634,388	1,971,819
Letters of credit	280,726	856,763	1,691,391	3,094,248
Letters of guarantees	33,628	358,731	989,153	1,171,432
Total	28,972,633	41,905,090	54,061,187	70,229,240

The Group may be exposed to credit risk in all the above credit businesses. 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.

(2) Credit risk-weighted amount

The Group and the Bank

	December 31,			June 30,
	2011	2012	2013	2014
Credit risk-weighted amount of contingent liabilities and commitments	12,038,940	19,998,225	26,464,249	54,388,886

The credit risk weighted amount represents the amount calculated with reference to the guidelines issued by the CBRC. The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights range from 0% to 150% for credit commitments.

(3) 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 and the Bank

	December 31,			June 30,
	2011	2012	2013	2014
Within one year (inclusive)	55,297	71,668	81,706	93,461
After one year but within five years (inclusive)	190,562	227,270	247,655	277,415
After five years	84,592	130,401	158,903	138,379
Total	330,451	429,339	488,264	509,255

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

41 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(4) Capital commitments

As at the end of each of the Relevant Periods, the Group and the Bank's authorised capital commitments are as follows:

	December 31,			June 30,
	2011	2012	2013	2014
Contracted but not paid for	16,008	42,713	119,734	194,954
Approved but not contracted for	–	46,972	44,643	504,282
Total	16,008	89,685	164,377	699,236

(5) Outstanding litigations and disputes

As at December 31, 2011, 2012, 2013 and June 30, 2014, there are no significant legal proceedings outstanding against the Bank and/or its subsidiaries.

(6) Pledged assets

	December 31,			June 30,
	2011	2012	2013	2014
Investment securities	27,362,831	51,206,233	29,198,211	54,897,393
Discounted bills	94,057	–	–	–
Total	27,456,888	51,206,233	29,198,211	54,897,393

Some of the Group's assets are pledged as collateral under repurchase agreements and deposits from customers.

The Group maintains statutory deposit reserves with the PBOC as required (Note 14). These deposits are not available for the Group's daily operations.

The Group's pledged assets in relation to the purchase of bills under resale agreements can be sold or repledged. The fair value of such pledged assets was RMB4,171 million, RMB8,930 million, RMB1,768 million and RMB13,208 million as at December 31, 2011, 2012 and 2013 and June 30, 2014, respectively. As at December 31, 2011, 2012 and 2013 and June 30, 2014, the Group sold or repledged RMB94 million, nil, nil and nil of pledged assets which it has an obligation to repurchase on due, respectively.

42 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

(1) Structured entities sponsored by third party institutions in which the Group holds an interest

The Group holds an interest in some structured entities sponsored by third party institutions through investments in the notes issued by these structured entities. Such structured entities include investment management products under trust scheme, investment management products managed by securities companies and wealth management products issued by financial institutions. The Group does not consolidate these structured entities. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors and financed through the issue of notes to investors.

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (continued)

(1) Structured entities sponsored by third party institutions in which the Group holds an interest (continued)

The following tables set out an analysis of the carrying amounts of interests held by the Group as at December 31, 2011, 2012, 2013 and June 30, 2014 in the structured entities sponsored by third party institutions, as well as an analysis of the line items in the statement of financial position in which relevant assets are recognised:

The Group and the Bank

	December 31, 2011			
	Available-for-sale	Loans and receivables	Carrying amount	Maximum exposure
Investment management products under trust scheme	1,310,565	503,727	1,814,292	1,814,292
Wealth management products issued by financial institutions	–	1,615,720	1,615,720	1,615,720
Total	1,310,565	2,119,447	3,430,012	3,430,012

	December 31, 2012		
	Loans and receivables	Carrying amount	Maximum exposure
Investment management products under trust scheme	15,134,624	15,134,624	15,134,624
Wealth management products issued by financial institutions	830,000	830,000	830,000
Total	15,964,624	15,964,624	15,964,624

	December 31, 2013		
	Loans and receivables	Carrying amount	Maximum exposure
Investment management products managed by securities companies	12,639,819	12,639,819	12,639,819
Investment management products under trust scheme	11,742,770	11,742,770	11,742,770
Wealth management products issued by financial institutions	330,000	330,000	330,000
Total	24,712,589	24,712,589	24,712,589

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (continued)

(1) Structured entities sponsored by third party institutions in which the Group holds an interest (continued)

	June 30, 2014		
	Loans and receivables	Carrying amount	Maximum exposure
Investment management products managed by securities companies	40,900,426	40,900,426	40,900,426
Investment management products under trust scheme	13,849,676	13,849,676	13,849,676
Wealth management products issued by financial institutions	330,000	330,000	330,000
Total	55,080,102	55,080,102	55,080,102

The maximum exposures to loss in the above investment management products and wealth management products are the amortised cost or the fair value (which is higher) of the assets held by the Group at the end of each of the Relevant Periods in accordance with the line items of these assets recognised in the statement of financial position.

(2) 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 notes to investors. Interest held by the Group includes fees charged by providing management services.

As at December 31, 2011, 2012 and 2013, and June 30, 2014, the amount of assets held by the unconsolidated non-principal-guaranteed wealth management products which are sponsored by the Group is nil, RMB100 million, RMB731 million and RMB1,720 million, respectively.

During the years ended December 31, 2011, 2012 and 2013, and the six months ended June 30, 2014, the amount of fee and commission income received from the abovementioned structured entities by the Group is RMB0.11 million, RMB0.28 million, RMB2.78 million and RMB1.99 million, respectively.

During the years ended December 31, 2011, 2012 and 2013, and the six months ended June 30, 2014, the aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Group is RMB922 million, RMB2,815 million, RMB4,758 million and RMB5,029 million, respectively.

43 FIDUCIARY ACTIVITIES

The Group commonly acts as a trustee, or in other fiduciary capacities, that result in its holding or managing assets on behalf of individuals, trusts and other institutions. These assets and any gains or losses arising thereon are not included in these financial statements as they are not the Group's assets.

As at December 31, 2011, 2012 and 2013 and June 30, 2014, the entrusted loans balance of the Group is RMB2,067 million, RMB1,831 million, RMB2,813 million and RMB3,501 million, respectively.

44 SUBSEQUENT EVENTS

The Group had no material events for disclosure subsequent to June 30, 2014 and up to the date of the Accountants' Report.

D SUBSEQUENT FINANCIAL STATEMENTS AND DIVIDENDS

No audited financial statements have been prepared by the Bank and its subsidiaries in respect of any period subsequent to June 30, 2014. Save as disclosed in the Financial Information, no dividend or distribution has been declared or made by any companies comprising the Group in respect of any period subsequent to June 30, 2014.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

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, and is included herein for information purpose only.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

In accordance with the Hong Kong Listing Rules and Banking (Disclosure) Rules, the Group discloses the unaudited supplementary financial information as follows:

1 Liquidity ratios

	As at December 31, 2011	Average for the year ended December 31, 2011
RMB current assets to RMB current liabilities	43.37%	41.06%
Foreign currency current assets to foreign currency current liabilities	100.44%	110.98%

	As at December 31, 2012	Average for the year ended December 31, 2012
RMB current assets to RMB current liabilities	48.08%	43.39%
Foreign currency current assets to foreign currency current liabilities	136.85%	93.49%

	As at December 31, 2013	Average for the year ended December 31, 2013
RMB current assets to RMB current liabilities	49.11%	54.64%
Foreign currency current assets to foreign currency current liabilities	128.08%	83.55%

	As at June 30, 2014	Average for the period ended June 30, 2014
RMB current assets to RMB current liabilities	54.65%	47.93%
Foreign currency current assets to foreign currency current liabilities	26.90%	72.54%

The above liquidity ratios were calculated in accordance with the formulas promulgated by the China Banking Regulatory Commission (the "CBRC"), and based on the financial information prepared in accordance with "Accounting Standards for Business Enterprises – Basic Standard" issued by the Ministry of Finance in the People's Republic of China on February 15, 2006, as well as 38 additional specific accounting standards, the Application Guide and Interpretation of Accounting Standards, and other relevant regulations.

2 Currency concentrations

	December 31, 2011			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	620,147	608,320	176,389	1,404,856
Spot liabilities	(602,660)	(608,320)	(176,389)	(1,387,369)
Net long position	17,487	–	–	17,487

	December 31, 2012			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	886,188	447,089	198,778	1,532,055
Spot liabilities	(851,693)	(447,089)	(198,778)	(1,497,560)
Net long position	34,495	–	–	34,495

	December 31, 2013			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	2,306,457	275,002	172,648	2,754,107
Spot liabilities	(2,257,728)	(275,002)	(172,648)	(2,705,378)
Net long position	48,729	–	–	48,729

	June 30, 2014			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	4,041,931	157,617	189,328	4,388,876
Spot liabilities	(3,971,855)	(156,005)	(188,709)	(4,316,569)
Net long position	70,076	1,612	619	72,307

The Group has no structural position at the Relevant Period ends.

3 Cross-border claims

The Group is principally engaged in business operations within mainland China. All claims to third parties outside mainland China are considered cross-border claims.

For the purpose of this unaudited supplementary financial information, mainland China excludes Hong Kong Special Administrative Region of the PRC ("Hong Kong"), Macau Special Administrative Region of the PRC ("Macau") and Taiwan.

Cross-border claims mainly include deposits with banks and other financial institutions.

Cross-border claims have been disclosed by different country or geographical areas. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of cross border claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a region or 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.

	December 31,			June 30,
	2011	2012	2013	2014
Deposits with banks and other financial institutions				
– Europe	169,201	119,431	108,452	28,328
– North and South America	149,516	200,592	60,899	15,503
– Asia Pacific excluding mainland China and Hong Kong	11,684	3,917	5,893	7,583
	330,401	323,940	175,244	51,414

4 Overdue loans and advances by geographical segments

	December 31,			June 30,
	2011	2012	2013	2014
Northeast China	729,767	1,646,384	915,796	1,185,922
North China	–	328,020	775	–
Others	–	14,700	18,700	34,903
Total	729,767	1,989,104	935,271	1,220,825

5 Gross amount of overdue loans and advances

	December 31,			June 30,
	2011	2012	2013	2014
Gross loans and advances which have been overdue with respect to either principal or interest for periods of				
– between 3 and 6 months (inclusive)	146,352	280,197	94,863	85,233
– between 6 months and 1 year (inclusive)	1,057	750	10,436	2,252
– over 1 year	441,528	500,610	484,573	405,522
Total	588,937	781,557	589,872	493,007
As a percentage of total gross loans and Advances				
– between 3 and 6 months (inclusive)	0.15%	0.25%	0.07%	0.06%
– between 6 months and 1 year (inclusive)	0.00%	0.00%	0.01%	0.00%
– over 1 year	0.45%	0.44%	0.36%	0.28%
Total	0.60%	0.69%	0.44%	0.34%

The information set forth in this appendix does not form part of the Accountants' Report prepared by KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of the Bank, as set forth in Appendix I in 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 financial information included in the Accountants' Report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma statement of adjusted consolidated net tangible assets of Shengjing Bank Co., Ltd. (the "Bank") and its subsidiaries (collectively 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 proposed offering by the Bank of its shares (the "Global Offering") on the consolidated net tangible assets of the Group attributable to the shareholders of the Bank as of June 30, 2014, as if the Global Offering had taken place on June 30, 2014.

The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as of June 30, 2014 or at any future date.

	Consolidated net tangible assets attributable to shareholders of the Bank as of June 30, 2014	**Estimated net proceeds from the Global Offering**	**Pro forma adjusted consolidated net tangible assets**	**Pro forma adjusted consolidated net tangible assets per share**	
	RMB Million	*RMB Million*	*RMB Million*	*RMB*	*HK$*
	Note (1)	*Note (2)/(5)*	*Note (3)*	*Note (4)*	*Note (6)*
Based on an offer price of HK$7.43 per share	25,138	7,144	32,282	5.72	7.21
Based on an offer price of HK$7.81 per share	25,138	7,513	32,651	5.78	7.28

Notes:

(1) The consolidated net tangible assets attributable to shareholders of the Bank as of June 30, 2014 is based on the consolidated net assets attributable to shareholders of the Bank of RMB25,175 million less intangible assets of RMB37 million as of June 30, 2014.

(2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK$7.43 (being the minimum offer price) and HK$7.81 per H Share (being the maximum offer price) and the assumption that there are 1,250,000,000 newly issued H Shares in the Global Offering, after deduction of the underwriting fees and other expenses related to the Global Offering (excluding approximately RMB2 million listing expenses which has been charged to profit or loss up to June 30, 2014) and takes no account of any shares which may be issued upon the exercise of the Over-Allotment Option.

(3) The unaudited pro forma adjusted consolidated net tangible assets do not take into account the financial results or other transactions of the Bank subsequent to June 30, 2014.

(4) The unaudited pro forma adjusted consolidated net tangible assets per share is arrived on the basis of 5,646,005,200 shares in issue assuming that the Global Offering has been completed on June 30, 2014 and that the Over-Allotment Option is not exercised.

(5) The estimated net proceeds from the Global Offering are translated into Renminbi at the rate of RMB0.7938 to HK$1.00, the exchange rate set by the PBOC prevailing on June 30, 2014. 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.

(6) The unaudited pro forma adjusted consolidated net tangible assets per share is translated into Hong Kong dollars at exchange rate of RMB0.7938 to HK$1.00. No representation is made that the Renminbi amounts have been, could have been or could be converted to Hong Kong dollars at that rate or at any other rate.

B. INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF 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 of incorporation in this prospectus.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

December 15, 2014

TO THE DIRECTORS OF SHENGJING BANK CO., LTD.

We have completed our assurance engagement to report on the compilation of pro forma financial information of Shengjing Bank Co., Ltd. (the "Bank") and its subsidiaries (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 consolidated net tangible assets as at June 30, 2014 and related notes as set out in Part A of Appendix III to the prospectus dated December 15, 2014 (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 June 30, 2014 as if the Global Offering had taken place at June 30, 2014. As part of this process, information about the Group's financial position as at June 30, 2014 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").

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 comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to 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 June 30, 2014 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

This Appendix sets out summaries of certain aspects of PRC laws and regulations, which are relevant to our operations and business. Laws and regulations relating to taxation in the PRC are discussed separately in "Appendix 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 Hong Kong Listing Rules and additional provisions required by the Hong Kong Stock Exchange for inclusion in the articles of association of PRC issuers.

PRC LAWS AND REGULATIONS

A. The PRC Legal System

The PRC legal system is based on the PRC Constitution (the "Constitution") and is made up of written laws, administrative regulations, local regulations, autonomy regulations, special rules, rules and regulations of State Council departments, rules and regulations of local governments, laws of special administrative regions and international treaties of which the Chinese government is a signatory and other regulatory documents. Court judgments do not constitute legally binding precedents, although they are used for the purposes of judicial reference and guidance.

The NPC and its Standing Committee are empowered to exercise the legislative power of the State. The NPC has the power to formulate and amend basic laws governing State organs, civil, criminal and other matters. The Standing Committee of the NPC is empowered to formulate and amend laws other than those required to be enacted by the NPC and to supplement and amend parts of the laws enacted by the NPC during the adjournment of the NPC, provided that such supplements and amendments are not in conflict with the basic principles of such laws. The Standing Committee of the NPC is empowered to interpret, enact and amend other laws not required to be enacted by the NPC.

The State Council is the highest organ of state administration and has the power to formulate administrative regulations based on the Constitution and laws.

The people's congresses of the provinces, autonomous regions and municipalities directly under the central government and their respective standing committees may, subject to the Constitution, laws and administrative regulations, formulate local regulations based on the specific circumstances and actual needs of their respective administrative areas. The people's congresses of larger cities and their respective standing committees may formulate local regulations based on the specific circumstances and actual needs of such cities and promulgate the same upon approval from the standing committees of the people's congresses of provinces or autonomous regions. The standing committees of the people's congresses of the provinces or autonomous regions shall examine the legality of local regulations submitted for approval, and such approval should be granted within four months if they are not in conflict with the Constitution, laws, administrative regulations and local regulations of the provinces or autonomous regions concerned. Where, during the examination for approval of local regulations of larger cities by the standing committees of the people's congresses of the provinces or autonomous regions, conflicts are identified with the rules and regulations of the people's governments of the provinces or autonomous regions concerned, a decision should be made by the standing committees of the people's congresses of provinces or autonomous regions to resolve the issue. "Larger cities" refers to cities where the people's governments of provinces or autonomous regions are located, cities where special economic zones are located and larger cities as approved by the State Council.

The ministries and commissions of the State Council, the PBOC, the NAO and the subordinate institutions with administrative functions directly under the State Council may formulate rules and regulations within the jurisdiction of their respective departments based on the laws and administrative regulations, and the decisions and orders of the State Council. Provisions of departmental rules should be 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 directly under the central government and larger cities may formulate rules and regulations based on the laws, administrative regulations and local regulations of such provinces, autonomous regions and municipalities directly under the central government.

According to the Constitution, the power to interpret laws is vested in the Standing Committee of the NPC. Pursuant to the Resolution of the Standing Committee of the NPC Providing an Improved Interpretation of the Law (《全國人民代表大會常務委員會關於加強法律解釋工作的決議》) passed on June 10, 1981, issues related to the laws applicable in a court trial should be interpreted by the Supreme People's Court, issues related to the laws applicable in a prosecution process should be interpreted by the Supreme People's Procuratorate, and the legal issues other than the above-mentioned should be interpreted by the State Council and the competent authorities. The State Council and its ministries and commissions are also vested with the power to give interpretations of the statutes and administrative regulations which they have promulgated. At the regional level, the power to interpret regional laws is vested in the regional legislative and administrative authorities which promulgate such laws.

B. The PRC Judicial System

Under the Constitution and the Law of Organization of the People's Courts of the PRC (《中華人民共和國法院組織法》), the PRC judicial system is made up of the Supreme People's Court, the local people's courts, the military courts and other special people's courts. The local people's courts are divided into three levels, namely, the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are further divided into civil, criminal and economic divisions, and certain people's courts based on the natures of the region, population and cases. The intermediate people's courts have divisions similar to those of the basic people's courts and other special divisions (such as the intellectual property division). These two levels of people's courts are subject to supervision by people's courts at higher levels. The Supreme People's Procuratorate is authorized to supervise the judgment and ruling of the People's courts at all levels which have been legally effective, and the people's procuratorate at a higher level is authorized to supervise the judgment and ruling of a People's court at a lower level which have been legally effective. The Supreme People's Court is the highest judicial authority in the PRC. It supervises the administration of justice by the people's courts at all levels.

The judgments or rulings of the second instance at a people's court are final. The parties 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 protest by the parties and any protest by the people's procuratorate within the stipulated period, the judgments or rulings of the people's court are final. Judgments or rulings of the second instance of the intermediate people's courts, the higher people's courts and the Supreme People's Court are final. Judgments or rulings of the first instance of the Supreme People's Court are also final. If, however, the Supreme People's Court or a people's court at the next higher level finds an error in a final and binding judgment or ruling which has taken effect in any people's court at a lower level, or the presiding judge of a people's court finds an error in a final and binding judgment or ruling which has taken effect in the court over which he presides, a retrial of the case may be initiated according to the judicial supervision procedures.

The Civil Procedure Law of the PRC (《中華人民共和國民事訴訟法》) (the "PRC Civil Procedure Law") adopted on April 9, 1991 and amended on October 28, 2007 and August 31, 2012 prescribes the conditions for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action, and the procedures for enforcement of a civil judgment or ruling. All parties to a civil action conducted within the PRC must abide by the PRC Civil Procedure Law. A civil case is generally heard by the court located in the defendant's place of domicile. The court of jurisdiction in respect of a civil action may also be chosen by explicit agreement among the parties to a contract, provided that the people's court having jurisdiction should be located at places directly connected with the disputes, such as the plaintiff's or the defendant's place of domicile, the place where the contract is executed or signed or the place where the object of the action is located. However, such choice may not in any circumstances contravene the regulations of differential jurisdiction and exclusive jurisdiction.

A foreign individual, a person without nationality or foreign 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 and enterprises, the PRC court may apply the same limitations to the citizens and enterprises of such foreign country. The foreign individual or foreign 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 in which the PRC a participant or the principle of reciprocity, a PRC court and foreign court may request each other to serve legal documents, conduct investigation and collect evidence and conduct other actions on its behalf. A PRC courts 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 the 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 postponed enforcement or revocation. If a party fails to satisfy within the stipulated period a judgment which the court has granted an enforcement approval, the court may, upon the application of the other party, mandatorily enforce the judgment.

A party seeking to enforce a judgment or ruling of a people's court against another party who is not or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or ruling. Likewise, if the PRC has entered into either a treaty relating to judicial enforcement with the relevant foreign country or a relevant international treaty, a foreign 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 the public interest.

C. The PRC Company Law, the Special Regulations and the Mandatory Provisions

The PRC Company Law was adopted by the Standing Committee of the Eighth NPC at its Fifth Session on December 29, 1993 and came into effect on July 1, 1994. It was amended on December 25, 1999, August 28, 2004, October 27, 2005 and December 28, 2013. The revised PRC Company Law came into effect on March 1, 2014.

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 are formulated in respect of the overseas share offering and listing of joint stock limited companies. The Mandatory Provisions jointly promulgated by the former Securities Commission of the State Council and the former State Restructuring Commission on August 27, 1994 prescribe the provisions which must be incorporated in the articles of association of joint stock limited companies to be listed on overseas stock exchanges. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association, a summary of which is set out in "Appendix V – Summary of Articles of Association" of this prospectus. References to a "company" made in this Appendix are to a joint stock limited company established under the PRC Company Law with H shares.

Set out below is a summary of the major provisions of the PRC Company Law, the Special Regulations and the Mandatory Provisions.

General

A "joint stock limited company ("company")" refers to a corporate legal person established 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 resident within the PRC. Companies incorporated by promotion are companies of which the entire registered capital is subscribed for by the promoters. Shares in the company shall not be offered to others unless the registered capital has been fully paid up. For companies incorporated by public subscription, the registered capital is the total paid-up capital as registered with the relevant registration authorities. If laws and regulations and State Council decisions have separate provisions on paid-in registered capital and the minimum registered capital, the company should follow such provisions.

For companies incorporated by way of promotion, the promoters shall subscribe in writing for the shares required to be subscribed for by them and pay up their capital contributions under the articles of association. Procedures relating to the transfer of titles to non-monetary assets shall be duly completed if such assets are to be contributed as capital. Promoters who fail to pay up their capital contributions in accordance with the foregoing provisions shall assume default liabilities in accordance with the covenants set out in the promoters' agreement. After the promoters have confirmed the capital contribution under the articles of association, a board and a supervisory board shall be elected and the board shall apply for registration of incorporation by filing the articles of association with the company registration authorities, and other documents as required by the law or administrative regulations.

Where companies are incorporated by subscription, not less than 35% of their total number of shares must be subscribed for by the promoters, unless otherwise provided for by the laws or administrative regulations. A promoter who offers shares to the public must publish a share offering prospectus and prepare a share subscription form to be completed, signed and sealed by subscribers, specifying the number and amount of shares to be subscribed for and the subscribers' addresses. The subscribers shall pay up monies for the shares they subscribe for. Where a promoter is offering shares to the public, such offer shall be underwritten by securities firms established under PRC law, and in accordance with signed underwriting agreements. A promoter offering shares to the public shall also enter into agreements with banks in relation to the receipt of subscription monies. The receiving banks shall receive and keep in custody the subscription monies, issue receipts to subscribers who have paid the subscription monies and furnish evidence of receipt of those subscription monies to relevant authorities. After the subscription monies for the share issue have been paid in full, a capital verification institution established under PRC law must be engaged to conduct a capital verification and furnish a report thereon. The promoters shall convene an inauguration meeting within 30 days following the full payment of subscription money. 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 of the subscription monies for the shares issued being fully paid up, the subscribers may demand that the promoters refund the subscription monies so paid together with the interest at bank rates of a deposit for the same period. Within 30 days of the conclusion of the inauguration meeting, the board shall apply to the registration authorities for registration of the establishment of the company. A company is formally established and has the status of a legal person after approval of registration has been given by the relevant administration bureau for industry and commerce and a business license has been issued.

A company's promoter 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 as a result of the promoters' default in the course of its incorporation.

Share Capital

The promoters may make a capital contribution in currencies, or non-monetary assets such as in kind or intellectual property rights or land use rights which can be appraised with monetary value and transferred lawfully, except for assets which are prohibited from being contributed as capital by the laws or administrative regulations. If a capital contribution is made in non-monetary assets, a valuation of the assets contributed must be carried out pursuant to the provisions of the 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. The same class of shares 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. The share offering price may be equal to or greater than the par value of the share, but may not be less than the par value.

A company must obtain the approval of the CSRC to offer its shares to the overseas public. The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas shall be in registered form, denominated in Renminbi and subscribed for in foreign currency. Shares issued to foreign investors and investors from the territories of Hong Kong, Macau and Taiwan and listed in Hong Kong are classified as H shares, and those shares issued to investors within the PRC, except these regions above, are known as domestic shares. Under the Special Regulations, upon approval of the CSRC, a company may agree, in the underwriting agreement in respect of an issue of H shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued in addition to the number of underwritten shares.

Under the PRC Company Law, a company issuing registered share certificates shall maintain a shareholder registry which sets forth the following matters:

(i) the name and domicile of each shareholder;

(ii) the number of shares held by each shareholder;

(iii) the serial numbers of shares held by each shareholder; and

(iv) the date on which each shareholder acquired the shares.

Increase in Share Capital

Where a company is issuing new shares, resolutions shall be passed at general meeting in accordance with the articles of association in respect of the class and amount of the new shares, the issue price of the new shares, the commencement and end dates for the issue of the new shares and the class and amount of the new shares proposed to be issued to existing shareholders.

When a company launches a public issue of new shares upon the approval by the CSRC, a new share offering prospectus and financial accounting report must be published and a subscription form must be prepared. After the new share issue of the company has been paid up, the change must be registered with the relevant administration bureau for industry and commence for registration and a public announcement must be made accordingly. Where an increase in registered capital of a company is made by means of an issue of new shares, the subscription of new shares by shareholders shall be made in accordance with the relevant provisions on the payment of subscription monies for the incorporation of a company.

Reduction of Share Capital

A company may reduce its registered capital in accordance with the following procedures prescribed by the PRC Company Law:

(i) the company shall prepare a balance sheet and an inventory of assets;

(ii) the reduction of registered capital must be approved by shareholders at general meeting;

(iii) the company shall notify its creditors of the reduction in share capital within 10 days and publish an announcement of the reduction in newspapers within 30 days of the resolution approving the reduction being passed;

(iv) the creditors of the company may within the statutory time limit require the company to repay its debts or provide guarantees for covering the debts; and

(v) the company must apply to the relevant administration bureau for industry and commence for registration of the change and reduction in registered capital.

Repurchase of Shares

A company may not purchase its own shares other than for one of the following purposes:

(i) reducing its registered capital;

(ii) merging with another company which holds its shares;

(iii) granting shares to its employees as incentives; and

(iv) acquiring its own shares at the request of its shareholders who vote in a shareholders' general meeting against a resolution regarding a merger or separation.

The acquisition by a company of its own shares on the grounds set out in (i) to (iii) above must be approved by way of a resolution of a shareholders' general meeting. Following the acquisition by a company of its own shares in accordance with these requirements, such shares must be cancelled within 10 days of the date of the acquisition in the case of (i) and transferred or cancelled within six months in the case of (ii) or (iv).

The acquisition by a company of its own shares in accordance with (iii) under the first paragraph of this subsection shall not exceed 5% of the total number of issued shares of the company. Such acquisition shall be financed by funds allocated from the company's profits after taxation, and the shares so acquired shall be transferred to the employees within one year.

Transfer of Shares

Shares held by shareholders may be transferred in accordance with the relevant laws and regulations. A shareholder 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 the laws or administrative regulations. Following the transfer, the company shall enter the names and addresses of the transferees into its share register. No changes of registration in the share register described above shall be effected during a period of 20 days prior to convening a shareholders' general meeting or five days prior to the record date for the purpose of determining entitlements to dividend distributions, subject to any legal provisions on the registration of changes in the share register of listed companies. The transfer of bearer share certificates shall become effective upon the delivery of the certificates to the transferee by the shareholder. The Mandatory Provision provides no registration of share transfer should be made to shareholder registry within thirty days before a shareholders' general meeting or within five days before the benchmark date set by the Bank to distribute dividends.

Shares held by promoters may not be transferred within one year of the establishment of the company. Shares of the company issued prior to the public issue of shares may not be transferred within one year of the date of the company's listing on a stock exchange. Directors, supervisors and the senior management of a company shall declare to the company their shareholdings in it and any changes in such shareholdings. During their terms of office, they may transfer no more than 25% of the total number of shares they hold in the company ever 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 of them having left their positions in the company. The articles of association may set out other restrictive provisions in respect of the transfer of shares in the company held by its directors, supervisors and the senior management.

Shareholders

Under the PRC Company Law, the rights of shareholders include the rights:

(i) to receive a return on assets, participate in significant decision-making and select management personnel;

(ii) to petition the people's court to revoke any resolution passed at a shareholders' general meeting or a meeting of board that has not been convened 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;

(v) to inspect the articles of association, share register, counterfoil of company debentures, minutes of shareholders' general meetings, board resolutions, resolutions of the supervisory board and financial and accounting reports and to make suggestions or enquiries in respect of the company's operations;

(vi) to receive dividends in respect of the number of shares held;

(vii) to receive residual properties of the company in proportion to their shareholdings upon the liquidation of the company; and

(viii) any other shareholders' rights provided for in the articles of association.

The obligations of shareholders include the obligation to abide by the company's articles of association, to pay the subscription monies in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up by them and any other shareholder obligation specified in the articles of association.

Shareholders' General Meetings

The general meeting is the organ of authority of the company, which exercises its powers in accordance with the PRC Company Law. The general meeting may exercise its powers:

(i) to decide on the company's operational objectives and investment plans;

(ii) to elect and remove the directors and supervisors (not being representative(s) of employees) and to decide on the matters relating to the remuneration of directors and supervisors;

(iii) to review and approve the reports of the board;

(iv) to review and approve the reports of the supervisory board or supervisors;

(v) to review and approve the company's annual financial budgets and final accounts;

(vi) to review and approve the company's profit distribution proposals and loss recovery proposals;

(vii) to decide on any increase or reduction of the company's registered capital;

(viii) to decide on the issue of corporate bonds;

(ix) to decide on the issues such as merger, separation, dissolution and liquidation of the company 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 aggregate 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 requests; or

(vi) any other circumstances as provided for in the articles of association.

A shareholders' general meeting shall be convened by the board, and presided over by the chairman of the board. In the event that the chairman is incapable of performing or is not performing his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or is not performing his duties, a director nominated by half or more of the directors shall preside over the meeting. Where the board is incapable of performing or is not performing its duties to convene the general meeting, the supervisory board shall convene and preside over such meeting in a timely manner. If the supervisory board fails to convene and preside over such meeting, shareholders individually or in aggregate holding 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 shall notify other shareholders within two days of receiving such proposal and table it for review by the general meeting. New proposals shall relate to specific subjects and matters for resolution within the authority of the general meeting. A shareholders' general meeting shall not make any resolution in respect of any matters not set out in the above two types of notices. Holders of bearer share certificates who wish to attend a shareholders' general meeting shall deposit their share certificates with the company five days before the meeting and till the conclusion of the meeting.

Shareholders present at a shareholders' general meeting have one vote for each share they hold, save that shares held by the company are not entitled to any voting rights. Resolutions of the general meeting must be passed by more than half of the voting rights held by shareholders present at the meeting, with the exception of matters relating to merger, separation or dissolution of the company, increase or reduction of registered share capital, change of corporate form or amendments to the articles of association, which in each case must be passed by 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.) An accumulative voting system may be adopted for the election of directors and supervisors at the general meeting pursuant to the provisions of the articles of association or a resolution of the general meeting. Under the accumulative voting system, each share shall be entitled to the number of votes equivalent to the number of directors or supervisors to be elected at the general meeting, and shareholders may consolidate their votes for one or more directors or supervisors when casting a vote.

Minutes shall be prepared in respect of matters considered at the general meeting and the chairman and directors attending the meeting shall endorse such minutes by signature. The minutes shall be kept together with the shareholders' attendance register and the proxy forms.

According to the Mandatory Provisions, the increase or reduction of share capital, the issuance of shares of any class, warrants or other similar securities and bonds, the separation, 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.

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.

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

A company shall have a board, which shall consist of 5 to 19 members. Members of the board may include staff representatives, who shall be democratically elected by the company's staff at a staff representative assembly, general staff meeting or otherwise. The term of a director shall be stipulated in the articles of association, provided that no term of office shall last for more than three years. A director may serve consecutive terms if re-elected. A director shall continue to perform his/her duties as a director in accordance with the laws, administrative regulations and the articles of association until a duly 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 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, separation or dissolution of the company or change of corporate form;

(viii) to decide on the setup of the company's internal management organs;

(ix) to appoint or dismiss the company's general manager and decide on his/her remuneration and, based on the general manager's recommendation, to appoint or dismiss any deputy general manager and financial officer of the company and to decide on their remunerations;

(x) to formulate the company's basic management system; and

(xi) to exercise any other authority stipulated in the articles of association.

Meetings of the board shall be convened at least twice each year. Notices of meeting shall be given to all directors and supervisors 10 days before the meeting. Interim board meetings may be convened by shareholders representing no less than 10% of the voting rights, no less than one-third of the directors or the supervisory board. The chairman shall convene the meeting within 10 days of receiving such proposal, and preside over the meeting. The board may otherwise determine the means and the period of notice for convening an extraordinary meeting of the board. Meetings of the board shall be held only if more than half of the directors are present. Resolutions of the board shall be passed by more than half of all directors. Each director shall have one vote for a resolution to be approved by the board. Directors shall attend the meetings of the board in person. If a director is unable to attend for any reason, he/she may appoint another director to attend the meeting on his/her behalf by a written power of attorney specifying the scope of authorization that his/her representative has.

If a resolution of the board violates any laws, administrative regulations or the articles of association or resolutions of the general meeting, and as a result of which the company suffers from serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proved that a director expressly objected to the resolution when the resolution was voted on, and that such objection was recorded in the minutes of the meeting, such director shall be relieved from that liability.

Under the PRC Company Law, the following persons may not serve as a director in a company:

(i) persons with no or restricted civil capacity;

(ii) persons who have committed the offence of corruption, bribery, taking of property, misappropriation of property or destruction of the socialist economic order, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offence, where less than five years have elapsed since the date of completion of the implementation of this deprivation;

(iii) persons who were directors, factory directors or managers of a company or enterprise which become bankrupt and has been liquidated and who were personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of completion of the bankruptcy and liquidation of the company or enterprise;

(iv) persons who were legal representatives of a company or enterprise which had its business license revoked or which was ordered to cease operation as a result of violation of laws and who were personally liable for such revocation or cessation, where less than three years have elapsed since the date of the revocation of the business license; and

(v) persons who have defaulted on a relatively substantial amount of debt personally owed by them.

Where a company elects or appoints a director to which any of the above circumstances applies, such election or appointment shall be null and void. A director to which any of the above circumstances applies during his/her term of office shall be released of his/her duties by the company.

Other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions.

The board shall appoint a chairman and may appoint a vice chairman.

The chairman and the vice chairman shall be elected with approval of more than half of all the directors. The chairman shall convene and preside over board meetings and review the implementation of board resolutions. The vice chairman shall assist the chairman to perform his/her duties. Where the chairman is incapable of performing or is not performing his/her duties, the duties shall be performed by the vice chairman. Where the vice chairman is incapable of performing or is not performing his/her duties, a director nominated by no less than half of the directors shall perform his/her duties.

Board of Supervisors

A company shall have a supervisory board composed of not less than three members. The supervisory board consists of representatives of the shareholders and an appropriate proportion of representatives of the company's staff. The actual proportion shall be determined in the articles of association, provided that the proportion of representatives of the company's staff shall not be less than one-third. Representatives of the company's staff at the supervisory board shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise. The supervisory board shall appoint a chairman and may appoint vice chairmen. The chairman and the vice chairman of the supervisory board shall be elected by more than half of the supervisors.

According 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.

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 no less than half of the supervisors shall convene and preside over supervisory board meetings. Directors and senior management shall not act concurrently as supervisors.

Each term of office of a supervisor is three years and he/she may serve consecutive terms if 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 the meetings of the board and make enquiries or proposals in respect of the resolutions of the board. The supervisory board may investigate any irregularities identified in the operation of the company and, when necessary, may engage an accounting firm to assist its work at the cost of the company.

Manager and Senior Management

A company shall have a general manager who shall be appointed or removed by the board. The general manager, who reports to the board of directors, may exercise his/her powers:

(i) to manage the production, operation and administration of the company, and arrange for the implementation of the resolutions of the board;

(ii) to organize and implement the annual business plans and investment proposals of the company;

(iii) to formulate proposals for the establishment of the company's internal management organs;

(iv) to formulate the fundamental management system of the company;

(v) to formulate the company's 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); and

(viii) to exercise any other authority granted by the board.

Other provisions in the articles of association on the general manager's powers shall also be complied with. The general manager shall be present at meetings of the board. However, the general manager shall have no voting rights at meetings of the board unless he/she concurrently serves as a director.

According to the PRC Company Law, senior management refers to the general manager, deputy manager, financial officer, secretary to the board of a listed company and other personnel as stipulated in the articles of association.

Duties of Directors, Supervisors, General Managers and Other Senior Management

Directors, supervisors, the general manager, the deputy manager and senior management are required under the PRC Company Law to comply with the relevant laws, regulations and the articles of association, and carry out their duties in good faith.

Directors, supervisors, managers and management personnel are prohibited from accepting bribes or other unlawful income and from misappropriating the company's property. Directors and senior management are prohibited from:

(i) misappropriating company funds;

(ii) depositing company funds into accounts maintained in their own names or the names of other individuals;

(iii) lending company funds to others or providing guarantees in favor of others against company property in violation of the articles of association or without approval of the general meeting or the board;

(iv) entering into contracts or transactions with the company in violation of the articles of association or without approval of the general meeting or the board;

(v) using their position to procure business opportunities for themselves or others that should have otherwise been available to the company or operating for their own benefit or operating on behalf of others' businesses similar to that of the company without approval of the general meeting;

(vi) accepting for their own benefit commissions from a third party dealing with the company;

(vii) unauthorized divulgence of confidential information of the company; and

(viii) any other acts in violation of their fiduciary duty towards the company.

Income generated by directors or senior management in violation of these shall be returned to the company.

A director, supervisor or senior management who contravenes any laws, regulations or the company's articles of association in the performance of his/her duties resulting in any loss to the company shall be 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 enquiries from shareholders. Directors and senior management shall furnish all truthful facts and information to the supervisory board or the supervisors (for companies with limited liability that do not have a supervisory board) without impeding the discharge of duties by the supervisory board or the supervisors.

Where a director or senior management contravenes any laws, regulations or the company's articles of association in the performance of his/her duties resulting in any loss to the company, shareholder(s) holding individually or in aggregate no less than 1% of the company's shares consecutively for at least 180 days may request in writing that the supervisory board institute litigation at a people's court on its behalf. Where the supervisory board violates the laws or administrative regulations or the articles of association in the discharge of their duties resulting in any loss to the company, such shareholder(s) may request in writing that the board institute litigation at a people's court on its behalf. If the supervisory board or the board refuses to institute litigation after receiving this written request from the shareholder(s), or fails to institute litigation within 30 days of the date of receiving the request, or in case of emergency where failure to institute litigation immediately will result in irrecoverable damage to the company's interests, shareholder(s) shall have the power to institute litigation directly at a people's court in its own name for the company's benefit. For other parties who infringe the lawful interests of the company resulting in loss to the company, such shareholder(s) may institute litigation at a people's court in accordance with the procedure described above. Where a director or senior management contravenes any laws, administrative regulations or the articles of association in infringement of shareholders' interests, a shareholder may also institute litigation at a people's court.

The Special Regulations and the Mandatory Provisions provide that a company's directors, supervisors, general managers and other senior management shall have fiduciary duties towards the company. They are required to faithfully perform their duties, to protect the interests of the company and not to use their positions for their own benefits. The Mandatory Provisions contain detailed stipulations on these duties.

Finance and Accounting

A company shall establish its own financial and accounting systems according to the laws, administrative regulations and the regulations of the competent financial departments of the State Council. At the end of each financial year, a company shall prepare a financial report which shall be audited by an accounting firm in accordance with the laws. The financial and accounting reports shall be prepared in accordance with the laws, administrative regulations and the regulations of the financial departments of the State Council.

The company's financial 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% of the company's registered capital. When the company's statutory common reserve fund is not sufficient to make up for the company's losses for the previous years, the current year's profits shall first be used to make good the losses before any allocation is set aside for the statutory common reserve fund. After the company has made allocations to the statutory common reserve fund from its profits after taxation, it may, upon passing a resolution at a shareholders' general meeting, make further allocations from its profits after taxation to the discretionary common reserve fund. After the company has made good its losses and made allocations to its discretionary common reserve fund, the remaining profits after taxation shall be distributed in proportion to the number of shares held by the shareholders, except for those which are not distributed in a proportionate manner as provided by the articles of association.

Profits distributed to shareholders by a resolution of a shareholders' general meeting or the board before losses have been made good and allocations have been made to the statutory common reserve fund in violation of the requirements described above must be returned to the company. The company shall not be entitled to any distribution of profits in respect of shares held by it.

The premium over the nominal value of the shares of the company on issue and other income as required by relevant government authorities to be treated as the capital reserve fund shall be accounted for as the capital reserve fund. The common reserve fund of a company shall be applied to make good the company's losses, expand its business operations or increase its capital. The capital reserve fund, however, shall not be used to make good the company's losses. Upon the transfer of the statutory common reserve fund into capital, the balance of the fund shall not be less than 25% of the registered capital of the company before such transfer.

The company shall have no accounting books other than the statutory books. The company's assets shall not be deposited in any account opened under the name of an individual.

Appointment and Retirement of Auditors

Pursuant to the PRC Company Law, the appointment or dismissal of an accounting firm responsible for the company's auditing shall be determined by shareholders at a shareholders' general meeting or the board in accordance with the articles of association. The accounting firm should be allowed to make representations when the general meeting or the board conduct a vote on the dismissal of the accounting firm on their respective meetings. The company should provide true and complete accounting evidence, accounting books, financial and accounting reports and other accounting information to the newly-engaged accounting firm without any refusal or withholding or falsification of information.

The Special Regulations require a company to engage an independent qualified accounting firm to audit the company's annual reports and to review and check other financial reports of the company. 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 reserve fund is drawn. The Special Regulations provide that the dividends and other distributions to be paid to holders of H shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

Amendments to the Articles of Association

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 our Articles of Association. The amendment to articles of association involving content of 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

A company shall be dissolved for any of the following reasons:

(i) the term of its operations set out in the articles of association has expired or other events of dissolution specified in the articles of association have occurred;

(ii) the shareholders have resolved at a shareholders' general meeting to dissolve the company;

(iii) the company is dissolved by reason of its merger or separation;

(iv) the business 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 on-going existence of the company a cause for significant losses to the shareholders.

In the event of paragraph (i) above, the company may carry on its existence by amending its articles of association. The amendments to the articles of association in accordance with the provisions described in the preceding paragraphs shall require the approval of shareholders present at the general meeting representing at least two-thirds of the voting rights.

Where the company is dissolved under the circumstances set forth in paragraph (i), (ii), (iv) or (v) above, it should establish a liquidation committee within 15 days of the date on which the dissolution matter arises. Members of the liquidation committee shall be composed of directors or any other people 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 its powers during the liquidation:

(i) to dispose of the company's assets and to prepare a balance sheet and an inventory of assets;

(ii) to notify the company's creditors or publish announcements;

(iii) to deal with and settle any outstanding business related to the liquidation;

(iv) to pay any overdue tax together with any tax arising during the liquidation process;

(v) to settle the company's financial claims and liabilities;

(vi) to handle the company's remaining assets after its debts have been paid off; and

(vii) to represent the company in any civil procedures.

The liquidation committee shall notify the company's creditors within 10 days of its establishment, and publish an announcement in newspapers within 60 days.

A creditor shall lodge his claim with the liquidation committee within 30 days of receipt of the notification or within 45 days of the date of the announcement if he has not received any notification. A creditor shall, in making his claim, state all matters relevant to his creditor's rights and furnish relevant evidence. The liquidation committee shall register such creditor's rights. The liquidation committee shall not make any settlement to creditors during the period of the claim.

Upon 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 companies' registration authority to cancel the company's registration, and an announcement of its termination shall be published. Members of the liquidation committee are required to discharge their duties in good faith and in compliance with relevant laws. Members of the liquidation committee shall be prohibited from abusing their authority in accepting bribes or other unlawful income and from misappropriating the company's properties. Members of the liquidation committee are liable to indemnify the company and its creditors in respect of any loss arising from their wilful or material default.

Liquidation of a company declared bankrupt according to laws shall be processed in accordance with the laws on corporate bankruptcy.

Overseas Listing

The shares of a company shall only be listed overseas after obtaining approval from CSRC, and the listing must be arranged in accordance with procedures specified by the State Council. Pursuant to the Special Regulations, a company may issue shares to overseas investors and list its shares overseas upon approval from the CSRC. Subject to approval of the company's plans to issue overseas-listed foreign invested shares and domestic shares by the 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 the CSRC.

Loss of Share Certificates

A shareholder may, in accordance with the public notice procedures set out in the PRC Civil Procedure Law, apply to a people's court if his share certificate(s) in registered form is either stolen, lost or destroyed, for a declaration that such certificate(s) will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issue of a replacement certificate(s).

The Mandatory Provisions have separate provisions governing the loss of share certificates and H share certificates of shareholders of overseas listed foreign shares, which shall be set out in the articles of association of a company.

Merger and Separation

A merger agreement shall be signed by merging companies and the involved companies shall prepare respective balance sheets and inventory of assets. The companies shall within 10 days of the date of passing the resolution approving the merger notify their respective creditors and publicly announce the merger within 30 days. A creditor may, within 30 days of receipt of the notification, or within 45 days of the date of the announcement if he has not received the notification, request the company to settle any outstanding debts or provide relevant guarantees. In case of a merger, the credits and debts of the merging parties shall be assumed by the surviving or the new company.

In case of a separation, the company's assets shall be divided and a balance sheet and an inventory of assets shall be prepared. When a resolution regarding the company's separation is approved, the company should notify all its creditors within 10 days of the date of passing such resolution and publicly announce the separation in newspapers within 30 days. Unless an agreement in writing is reached with creditors in respect of the settlement of debts, the liabilities of the company which have accrued prior to the separation shall be jointly borne by the separated companies.

Changes in the registration of the companies as a result of the merger or separation shall, if so required, be registered with the relevant administration bureau for industry and commence for registration.

In accordance with the laws, cancellation of a company shall be registered when a company is dissolved and incorporation of a company shall be registered when a new company is incorporated.

D. The PRC Securities Laws, Regulations and Regulatory Regimes

The PRC has promulgated a number of regulations that relate to the issue and trading of our shares and disclosure of information by us. In October 1992, the State Council established the Securities Committee and the CSRC. The Securities Committee is responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the CSRC. The CSRC is the regulatory arm of the Securities Committee and is responsible for the drafting of regulatory provisions governing securities markets, supervising securities companies, regulating public offerings of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities-related statistics and undertaking relevant research and analysis. In April 1998, the State Council consolidated the Securities Committee and the CSRC and reformed the CSRC.

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, and is divided into 12 chapters and 240 articles regulating, among other matters, the issue and trading of securities, takeovers by listed companies, securities exchanges, securities companies and the duties and responsibilities of the State Council's securities regulatory authorities. The PRC Securities Law comprehensively regulates activities in the PRC securities market. Article 238 of the PRC Securities Law provides that domestic enterprises must obtain prior approval from the State Council 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 the CSRC.

E. Arbitration and Enforcement of Arbitral Awards

The Arbitration Law of the PRC (《中華人民共和國仲裁法》) (the "PRC Arbitration Law") was enacted by the Standing Committee of the NPC on August 31, 1994, which became effective on September 1, 1995 and was amended on August 27, 2009. It is applicable to, among other matters, economic disputes involving foreign parties where all parties have entered into a written agreement to resolve disputes by arbitration before an arbitration committee constituted in accordance with the PRC Arbitration Law. The PRC Arbitration Law provides that an arbitration committee may, before the promulgation of arbitration regulations by the PRC Arbitration Association, formulate interim arbitration rules in accordance with the PRC Arbitration Law and the PRC Civil Procedure Law. Where the parties have agreed to use arbitration as a method for settlement of disputes, a people's court will refuse to handle a legal proceeding initiated by one of the parties at such people's court, unless the arbitration agreement has lapsed.

The Hong Kong Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of a company listed in Hong Kong and, in the case of the Hong Kong Listing Rules, in a contract between the company and each director or supervisor. Pursuant to such clause, whenever a dispute or claim arises from any right or obligation provided in the articles of association, the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of the company between (i) a holder of overseas listed foreign shares and the company; (ii) a holder of overseas listed foreign shares and a holder of domestic shares; or (iii) a holder of 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, an arbitral award shall be final and binding on the parties involved in the arbitration. If any party fails to comply with the award, the other party to the award may apply to a people's court for its enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration commission if there is any procedural irregularity (including irregularity in the composition of the arbitration committee, the jurisdiction of the arbitration commission, or the making of an award on matters beyond the scope of the arbitration agreement).

Any party seeking to enforce an arbitral award of a foreign affairs arbitration organ of the PRC against a party who or whose property is not located within the PRC may apply to a foreign court with jurisdiction over the case for enforcement of the award. Likewise, an arbitral award made by a foreign arbitration body may be recognized and enforced by a PRC court in accordance with the principle of reciprocity or any international treaty concluded or acceded to by the PRC.

The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention") adopted on 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 recognize and enforce foreign arbitral awards based on the principle of reciprocity; and (ii) the PRC will only apply the New York Convention to disputes deemed under PRC law to be arising from contractual or non-contractual mercantile legal relations. An arrangement for reciprocal enforcement of arbitral awards between Hong Kong and the PRC was signed on June 18, 1999, became effective on February 1, 2000. The arrangement reflects the spirit of the New York Convention, allowing awards made by PRC arbitral authorities to be enforced in Hong Kong and awards by Hong Kong arbitral authorities to be enforced in the PRC.

SUMMARY OF MATERIAL DIFFERENCES BETWEEN HONG KONG AND PRC COMPANY LAW

The Hong Kong law applicable to a company incorporated in Hong Kong is based on the Companies Ordinance and the Companies (Winding up and Miscellaneous Provisions) Ordinance and is supplemented by common law and the rules of equity that are applicable to Hong Kong. As a joint stock limited company established in the PRC that is seeking a listing of shares on the Hong Kong Stock Exchange, we are governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law.

Set out below is a summary of certain material differences between Hong Kong company law applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited company incorporated and existing under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

Corporate Existence

Under Hong Kong company law, a company with share capital, is incorporated by the Registrar of Companies in Hong Kong and the company will acquire an independent corporate existence upon its incorporation. A company may be incorporated as a public company or a private company. Pursuant to the Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain provisions that restrict a member's right to transfer shares. A public company's articles of association do not contain such provisions.

Under the PRC Company Law, a joint stock limited company may be incorporated by promotion or subscription. The amended PRC Company Law which came into effect on March 1, 2014 has no provision on the minimum registered capital of joint stock company, except that laws, administrative regulations and State Council decisions have separate provisions on paid-in registered capital and the minimum registered capital, in which case the company should follow such provisions.

Hong Kong law does not prescribe any minimum capital requirement for a Hong Kong company.

Share Capital

Under Hong Kong law, the directors of a Hong Kong company may, with the prior approval of the shareholders if required, issue new shares of the company. The PRC Company Law provides that any increase in our registered capital must be approved by our shareholders' general meeting and the relevant PRC governmental and regulatory authorities.

Under the Securities Law, a company which is 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. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the PRC Company Law, the shares may be subscribed for in the form of money or nonmonetary assets (other than assets not entitled to be used as capital contributions under relevant laws and administrative regulations). For non-monetary assets to be used as capital contributions, appraisals and assets transfer procedures must be carried out to ensure no overvaluation or under-valuation of the assets. There is no such restriction on a Hong Kong company under Hong Kong law.

Restrictions on Shareholding and Transfer of Shares

Under PRC law, our Domestic Shares, which are denominated and subscribed for in Renminbi, may only be subscribed for or traded by the State, PRC legal persons, natural persons, qualified foreign institutional investors, or eligible foreign strategic investors. Overseas listed shares, which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, or qualified domestic institutional investors.

Under the PRC Company Law, a promoter of a joint stock limited company is not allowed to transfer the shares it holds for a period of one year after the date of establishment of the company. Shares in issue prior to our public offering cannot be transferred within one year from the listing date of the shares on a stock exchange. Shares in a joint stock limited liability company transferred by its directors, supervisors and members of the senior management each year during their term of office shall not exceed 25% of the total shares they held in the company, and the shares they held in the company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after the said personnel has left office. The articles of association may set other restrictive requirements on the transfer of the company's shares held by its directors, supervisors and senior management. There are no such restrictions 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 shares. However, the Mandatory Provisions contain certain restrictions on a company and its subsidiaries on providing such financial assistance similar to those under the Hong Kong company law.

Variation of Class Rights

The PRC Company Law has no special provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarized in the appendix entitled "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 a Board of Supervisors. There is no mandatory requirement for the establishment of a board of supervisors for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Derivative Action by Minority Shareholders

Hong Kong law permits minority shareholders to initiate a derivative action on behalf of all shareholders against directors who have committed a breach of their fiduciary duties to the company if the directors control a majority of votes at a general meeting, thereby effectively preventing a company from suing the directors in breach of their duties in its own name. The PRC Company Law provides shareholders of a joint stock limited company with the right so that in the event where the directors and senior management violate their obligations and cause damages to a company, the shareholders individually or jointly holding no less than 1% of the shares in the company for no less than 180 consecutive days may request in writing the board of supervisors to initiate proceedings in the people's court. In the event that the board of supervisors violates their obligations and cause damages to a company, the above said shareholders may send written request to the board of directors to initiate proceedings in the people's court. Upon receipt of such written request from the shareholders, if the board of supervisors or the board of directors refuses to initiate such proceedings, or has not initiated proceedings within 30 days upon receipt of the request, or if under urgent situations, failure of initiating immediate proceeding may cause irremediable damages to the company, the above said shareholders shall, for the benefit of the company's interests, have the right to initiate proceedings directly to the people's court in their own name.

The Mandatory Provisions provide further remedies against the directors, supervisors and senior management who breach their duties to the company. In addition, as a condition to the listing of shares on the Hong Kong Stock Exchange, each director and supervisor of a joint stock limited company is required to give an undertaking in favor of the company acting as agent for the shareholders. This allows minority shareholders to take action against directors and supervisors in default.

Protection of Minorities

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to the court to either appoint a receiver or manager over the property or business of the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary of Hong Kong may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The PRC law does not contain similar safeguards. The Mandatory Provisions, however, contain provisions that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the shareholders generally or of a proportion of the shareholders of a company to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders.

Notice of Shareholders' General Meetings

Under the PRC Company Law, notice of a 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 reply in writing at least 20 days before the date of the meeting. For a company incorporated in Hong Kong, the minimum period of notice is 21 days in the case of an annual general meeting and 14 days in other cases.

Quorum for Shareholders' General Meetings

Under Hong Kong law, the quorum for a general meeting must be at least two members unless the articles of association of the company otherwise provide. For companies with only one member, the quorum must be one member. The PRC Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Regulations and the Mandatory Provisions provide that general meetings may only be convened when replies to the notice of that meeting have been received from shareholders whose shares represent at least 50% of the voting rights at least 20 days before the proposed date of the meeting, or if that 50% level is not achieved, the company shall within five days notify its shareholders again by way of a public announcement and the shareholders' general meeting may be held thereafter.

Voting

Under Hong Kong law, an ordinary resolution is passed by a simple majority and a special resolution is passed by a majority of at least 75%. Under the PRC Company Law, the passing of any resolution requires affirmative votes of shareholders representing more than half of the voting rights represented by the shareholders who attend the general meeting except in cases of proposed amendments to a company's articles of association, increase or decrease of registered capital, merger, division or dissolution, or change of corporation form, which require affirmative votes of shareholders representing more than two-thirds of the voting rights represented by the shareholders who attend the general meeting.

Financial Disclosure

Under the PRC Company Law, a joint stock limited company is required to make available at the company for inspection by shareholders its financial report 20 days before its shareholders' annual general meeting. In addition, a joint stock limited company of which the shares are publicly offered must publish its financial report. The Companies Ordinance requires a company incorporated in Hong Kong to send to every shareholder a copy of its financial statements, auditors' report and directors' report, which are to be presented before the company in its annual general meeting, not less than 21 days before such meeting. A joint stock limited liability company is required under the PRC law to prepare its financial statements in accordance with the PRC GAAP. The Mandatory Provisions require that a company must, in addition to preparing financial statements according to the PRC GAAP, have its financial statements prepared and audited in accordance with international or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC GAAP. The 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 on directors which is similar to the shareholders' rights of Hong Kong companies under Hong Kong law.

Receiving Agent

Under the PRC Company Law and Hong Kong law, dividends once declared are debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while under the PRC law this limitation period is two years. The Mandatory Provisions require the relevant company to appoint a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of shares dividends declared and all other monies owed by the company in respect of its shares.

Corporate 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 to the status of a joint stock limited liability company has to be approved by shareholders in general meeting.

Dispute Arbitration

In Hong Kong, disputes between shareholders on the one hand, and a company incorporated in Hong Kong or its directors on the other 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 member of the 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 member of the 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 two years. The company must not exercise its powers to forfeit any unclaimed dividend in respect of shares until after the expiry of the applicable limitation period.

Fiduciary Duties

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the PRC Company Law, directors, supervisors and senior management should be loyal and diligent. Under the 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 in certain circumstances) in a year, whereas, as required by the PRC Company Law and the Mandatory Provisions, share transfers shall not be registered within 30 days before the date of a shareholders' general meeting or within five days before the base date set for the purpose of distribution of dividends.

HONG KONG LISTING RULES

The Listing Rules provide additional requirements which apply to us as an issuer incorporated in the PRC as a joint stock limited company and seeking a primary listing or whose primary listing is on the Hong Kong Stock Exchange. Set out below is a summary of the principal provisions containing the additional requirements which apply to us.

Compliance Advisor

A company seeking listing on the Hong Kong Stock Exchange is required to appoint a compliance advisor acceptable to the Hong Kong Stock Exchange for the period from its listing date up to the date of the publication of its financial results for the first full financial year commencing after the listing date. The compliance advisor should provide professional advice on continuous compliance with the Listing Rules and all other applicable laws and regulations, and to act at all times, in addition to its two 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 adviser is fulfilling its responsibilities adequately, it may require the company to terminate the compliance advisor's appointment and appoint a replacement.

The compliance advisor must keep the company informed on a timely basis of changes in the Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the company. It must act as the company's principal channel of communication with the Hong Kong Stock Exchange if the authorized representatives of the company are expected to be frequently outside Hong Kong.

Accountants' Report

The accountants' report must normally be drawn up in conformity with: (a) HKFRS; or (b) IFRS; or (c) China Accounting Standards for Business Enterprises ("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$50 million. The Hong Kong Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% if the issuer is expected to have a market 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 to the extent that (i) the existing shareholders have by special resolution in general meeting given a mandate to the board of directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to 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 at the date of the passing of the relevant special resolution, or (ii) such shares are issued as part of the Company's plan at the time of its establishment to issue domestic shares and H shares and which plan is implemented within 15 months from the date of approval by the securities regulatory authority of the State Council.

Supervisors

A company listed or seeking a listing on the Hong Kong Stock Exchange is required to adopt rules governing dealings by the Supervisors in securities of our Company in terms no less exacting than those of the model code (set out in Appendix 10 to the Listing Rules) issued by the Hong Kong Stock Exchange.

A PRC issuer is required to obtain the approval of its shareholders at a general meeting (at which the relevant supervisor and his associates must abstain from voting on the matter) prior to the company or any of its subsidiaries entering into a service contract of the following nature with a supervisor or proposed supervisor of the listed company or any of its subsidiaries: (1) the term of the contract exceeds three years; or (2) the contract expressly requires the company (or its subsidiaries) to give more than one year's notice or to pay compensation or make other payments equivalent to the remuneration more than one year in order for it to terminate the contract.

The nomination and remuneration committee of the listed company or an independent board committee must form a view in respect of service contracts that require shareholders' approval and advise shareholders (other than shareholders with a material interest in the service contracts and their associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of the listed company and its shareholders as a whole and advise shareholders on how to vote.

Amendment to Articles of Association

A PRC issuer may not permit or cause any amendment to be made to its articles of association which would contravene the PRC Company Law, the Mandatory Provisions or the Listing Rules.

Documents for Inspection

A PRC issuer is required to make available at a place in Hong Kong for inspection by the public and shareholders free of charge, and for copying by its shareholders at reasonable charges of the following:

- a complete duplicate register of shareholders;
- a report showing the state of its issued share capital;
- its latest audited financial statements and the reports of the directors, auditors and supervisors, if any, thereon;
- special resolutions;
- reports showing the number and nominal value of securities repurchased by it since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between class shares);
- copy of the latest annual return filed with the SAIC or other competent PRC authority; and
- for shareholders only, copies of minutes of shareholders' general meetings.

Receiving Agents

Under Hong Kong law, a PRC issuer is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owed in respect of the H shares to be held, pending payment, in trust for the holders of such H shares.

Statements in Share Certificates

A PRC issuer is required to ensure that all of its listing documents and share certificates include the statements stipulated below and to instruct and cause each of its share registrars not to register the subscription, purchase or transfer of any of its shares in the name of any particular holder unless and until such holder delivers to the share registrar a signed form in respect of such shares bearing statements to the following effect, that the acquirer of shares:

- agrees with the company and each shareholder, and it agrees with each shareholder, to observe and comply with the PRC Company Law, the Special Regulations and its articles of association;

- agrees with the company, each shareholder, director, supervisor, manager and other senior management and it (acting both for the company and for each director, supervisor, manager and other senior management), agree with each shareholder to refer all differences and claims arising from the articles of association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning its affairs to arbitration in accordance with the articles of association. Any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;

- agrees with the company and each shareholder that shares are freely transferable by the holder thereof; and

- authorizes the company to enter into a contract on his behalf with each director and senior management whereby such directors and senior management undertake to observe and comply with their obligations to shareholders as stipulated in the articles of association.

Legal Compliance

A PRC issuer is required to observe and comply with the PRC Company Law, the Special Regulations and its articles of association.

Contract between the PRC Issuer and Directors, Senior Management and Supervisors

A PRC issuer is required to enter into a contract in writing with every director and senior management containing at least the following provisions:

- an undertaking by the director or senior management to itself to observe and comply with the PRC Company Law, the Special Regulations, its articles of association, the Hong Kong Takeovers Code and an agreement that it must have the remedies provided in its articles of association and that neither the contract nor his office is capable of assignment;

- an undertaking by the director or senior management to it acting as agent for each shareholder to observe and comply with his obligations to our shareholders as stipulated in the articles of association; and

- an arbitration clause which provides that whenever any differences or claims arise from the contract, its articles of association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant law and administrative regulations concerning affairs between us and its directors or senior management and between a holder of H shares and a director or senior management, such differences or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party shall submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive. If the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen, according to the Securities Arbitration Rules of the HKIAC. PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations. The award of the arbitral body is final and shall be binding on the parties thereto. Disputes over who is a shareholder and over the share register do not have to be resolved through arbitration.

A PRC issuer is also required to enter into a contract in writing with every supervisor containing statements in substantially the same terms.

Subsequent Listing

A PRC issuer must not apply for the listing of its H shares on a PRC stock exchange unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of its H shares are adequately protected.

English Translation

All notices or other documents required under the Listing Rules to be sent by a PRC issuer to the Hong Kong Stock Exchange or to holders of the H Shares are required to be in English, or accompanied by a certified English translation.

General

If any change in the PRC law or market practices materially alters the validity or accuracy of any basis upon which the additional requirements have been prepared, the Hong Kong Stock Exchange may impose additional requirements or make listing of H shares by a PRC issuer subject to special conditions as the Hong Kong Stock Exchange may consider appropriate. Whether or not any such changes in the PRC law or market practices occur, the Hong Kong Stock Exchange retains its general power under the Hong Kong Listing Rules to impose additional requirements and make special conditions in respect of any company's listing.

OTHER LEGAL AND REGULATORY PROVISIONS

Upon the listing on the Hong Kong Stock Exchange, the provisions of the SFO, the Hong Kong Takeovers Code and such other relevant ordinances and regulations will apply to a PRC issuer.

SECURITIES ARBITRATION RULES

The Securities Arbitration Rules of the HKIAC contain provisions allowing, upon application by any party, an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Hong Kong Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties, including witnesses and the arbitrators, being permitted to enter Shenzhen for the purpose of the hearing. Where a party, other than a PRC party, or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

Any person wishing to have detailed advice on PRC law or the laws of any jurisdiction is recommended to seek independent legal advice.

Set out below is a summary of the principal provisions of our Articles of Association, the principal objective of which is to provide investors with an overview of our Articles of Association.

As the information contained below is in summary form, it does not contain all the information that may be important to potential investors. Copies of the full English and Chinese texts of our Articles of Association are available for inspection as mentioned in "Appendix VIII – Documents Delivered to the Registrar of Companies and Available for Inspection".

Our Articles of Association were adopted by our shareholders in the shareholders' general meeting held on May 30, 2014 and were approved by the CBRC Liaoning Bureau on September 18, 2014. Our Articles of Association will become effective on the date that our H Shares are listed on the Hong Kong Stock Exchange.

DIRECTORS AND OTHER SENIOR MANAGEMENT

Power to Allot and Issue Shares

There is no provision in our Articles of Association empowering the directors to allot and issue shares.

To increase the capital of our Bank, the proposal must be submitted by the Board, the Board of Supervisors or the shareholder(s) who individually or in the aggregate hold 3% or more of the total issued and outstanding shares of our Bank with voting rights for approval by a special resolution at a shareholders' general meeting.

Power to Dispose of the Assets of Our Bank or Any Subsidiary

The Board shall not, without the prior approval of shareholders in a shareholders' general meeting, dispose of, or agree to dispose of, any fixed assets of our Bank where the sum of the estimated value of the consideration for the proposed disposition and the aggregate amount of the consideration for all dispositions of fixed assets of our Bank completed within four months immediately preceding the proposed disposition exceeds 33% of the value of our Bank's fixed assets as shown on the last balance sheet reviewed at a shareholders' general meeting.

The validity of a disposition by our Bank of fixed assets shall not be affected by the breach of the above paragraph.

For the purposes of our Articles of Association, a disposition of fixed assets includes an act involving the transfer of an interest in such assets but does not include the provision of such assets as a form of security.

EMOLUMENTS AND COMPENSATION FOR LOSS OF OFFICE

Our Bank shall, with the prior approval at a shareholders' general meeting, enter into a contract in writing with each of the directors or supervisors wherein his emoluments are stipulated. The aforesaid emoluments include:

(a) emoluments in respect of his service as a director, a supervisor or senior management of our Bank;

(b) emoluments in respect of his service as a director, a supervisor or senior management of any subsidiary of our Bank;

(c) emoluments in respect of the provision of other services in connection with the management of the affairs of our Bank and of any subsidiary of our Bank; and

(d) compensation for loss of office, or as consideration for or in connection with his retirement from office.

Except under a contract entered into in accordance with the foregoing, no proceedings may be brought by a director or supervisor against our Bank for any benefit due to him in respect of the above matters.

Contracts concerning emoluments between our Bank and our directors or supervisors should provide that, in the event of a takeover of our Bank, the directors or supervisors shall, subject to the prior approval of the shareholders in a shareholders' general meeting, have the right to receive compensation or other payment in respect of a loss of office or retirement. A "takeover of our Bank" referred to in this paragraph means either:

(a) an offer made by any person to all shareholders; or

(b) an offer made by any person with a goal of becoming "controlling shareholder" within the meaning set out in our Articles of Association. See the meaning of "controlling shareholder" in "– Rights of Minority Shareholders".

If the relevant director or supervisor does not comply with the preceding provision, any sum so received by him shall belong to those persons who have sold their shares as a result of the said offer. The expenses incurred in distributing such sum pro rata amongst those persons shall be borne by the relevant director or supervisor and shall not be paid out of the sum to be received by him.

LOANS TO DIRECTORS, SUPERVISORS AND OTHER OFFICERS

Our Bank may not provide loans or loan guarantees directly or indirectly to a director, supervisor, or senior management of our Bank, and our Bank may not provide loans or loan guarantees to a related person of such individual either.

The preceding provision will not apply to the following circumstances:

(a) our Bank provides loans or loan guarantees to its subsidiary; and

(b) our Bank provides loans, loan guarantees or other payment to a director, supervisor, president or other senior management to meet expenditure incurred by him/her for the purposes of our Bank or his/her fulfillment of the responsibilities, in accordance with the contract of service approved by a shareholders' general meeting; or

(c) the terms and conditions of the loans or loan guarantees provide by our Bank to a director, supervisor, senior management or other related persons are normal commercial terms and conditions.

A loan made by our Bank in breach of the above provisions shall be repayable forthwith by the recipient of the loan regardless of the terms of the loan.

FINANCIAL ASSISTANCE FOR THE ACQUISITION OF SHARES IN OUR BANK

Subject to the exceptions in our Articles of Association, our Bank or our branches and any subsidiary shall not, by any means at any time, provide any kind of financial assistance (as defined below) to a person who is acquiring or is proposing to acquire shares of our Bank in respect of his/her Conduct of acquiring or proposing to acquire shares of our Bank. Such acquirer of shares of our Bank includes a person who directly or indirectly incurs any obligations (as defined below) due to the acquisition of shares. Our Bank or our branches and any subsidiary shall not, by any means at any time, provide financial assistance to such acquirer for the purpose of reducing or discharging the obligations assumed by that person.

The following activities shall not be deemed to be prohibited activities:

(a) the provision of financial assistance by our Bank where the financial assistance is given in good faith in the interest of our Bank, and the principal purpose in giving financial assistance is not for the acquisition of shares, or the giving of financial assistance is an incidental part of a major plan of our Bank;

(b) the distribution of our Bank's assets through dividends;

(c) the allotment of bonus shares as dividends;

(d) a reduction of registered capital, a repurchase of shares or an adjustment of the share capital structure of our Bank effected in accordance with our Articles of Association;

(e) the lending of money by our Bank within its scope of business and in the ordinary course of business (provided that the net assets of our Bank are not thereby reduced or that, to the extent that the net assets are thereby reduced, the financial assistance is provided out of distributable profits); and

(f) the provision of money by our Bank for contributions to an employees' shareholding plan (provided that the net assets of our Bank are not thereby reduced or, to the extent that the net assets are thereby reduced, the financial assistance is provided out of distributable profits).

For these purposes:

- "financial assistance" includes, but is not limited to, the following:
  - a gift;
  - a guarantee (including any liability by the guarantor or the provision of assets by the guarantor to secure the performance of obligations by the obligor), compensation (other than compensation due to our Bank's own default) or release or waiver of any rights;
  - provision of a loan or any other contract under which the obligations of our Bank are to be fulfilled before the obligations of another party, or a change in the parties to, or the assignment of rights arising under, such a loan or contract; or
  - any other form of financial assistance given by our Bank when our Bank is insolvent or has no net assets, or when its net assets would thereby be reduced by a material extent.
- Incurring an obligation includes the incurring of obligations by entering into a contract, the making of an arrangement (whether legally enforceable or not, and whether made on its own account or with any other persons) or any other means that result in the change of the obligor's financial position.

DISCLOSURE OF INTERESTS IN CONTRACTS WITH OUR BANK

Where a director or any of his associates (as defined in the "Listing Rules"), supervisor, senior management of our Bank is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement, or proposed contract, transaction or arrangement, with our Bank (other than his contract of service with our Bank), he shall declare the nature and extent of his interests to the Board at the earliest opportunity, regardless of whether such contract, transaction or arrangement is under normal circumstances subject to the approval of the Board.

Unless the interested director, supervisor, senior management discloses his interests to the Board in accordance with our Articles of Association and the contract, transaction or arrangement is approved by the Board at a meeting in which the interested director, supervisor, senior management is not counted in the quorum and refrains from voting, the contract, transaction or arrangement in which a director, supervisor, senior management is materially interested is voidable at the request of our Bank except as against a bona fide party acting without notice of the breach of duty by the interested director, supervisor, senior management.

For the purposes of this provision, a director, supervisor, senior management of our Bank is deemed to be interested in a contract, transaction or arrangement in which one of his related person is interested.

If a director, supervisor, senior management of our Bank, before the date on which the question of entering into the relevant contract, transaction or arrangement is first taken into consideration by our Bank, gives to the Board and Board of Supervisors a general notice in writing stating that, by reason of the facts specified in the notice, he is interested in the contracts, transactions or arrangements and such contracts, transactions or arrangements are subsequently made by our Bank, such notice shall be deemed to be a sufficient declaration of his interests for the purpose of the above paragraphs to the extent of such disclosure in such notice.

REMUNERATION

The remuneration of directors must be approved by shareholders in a shareholders' general meeting. See "– Emoluments and Compensation for Loss of Office".

APPOINTMENT, REMOVAL AND RETIREMENT

The qualification of a director shall be examined and approved by the relevant banking regulatory authorities. The term of office of directors shall be three years, renewable upon re-election. Directors shall be elected and replaced by the shareholders' general meeting.

Our Board, Nomination and Remuneration Committee and shareholder(s) individually or in the aggregate holding 1% or more of the issued shares of our Bank are entitled to nominate candidates for independent directors to be elected by shareholders' general meetings. The term of office of an independent director is the same with other directors, renewable upon re-election but limited to a maximum term of six years.

The Board shall consist of 15 directors, of which at least one-third shall be independent directors. The Board shall have one chairman and one vice chairman. The chairman and vice chairman shall be elected by a majority of all directors.

A director, supervisor, senior management of our Bank may not be:

(a) a person without legal capacity or with restricted legal capacity;

(b) a person who has criminal records, is personally reliable for or is responsible by virtue of his/her supervisory role for the irregular or illegal operation activities or significant losses of the organizations which he/she has ever been served or is personally reliable for the organizations which has been announced to become bankrupt or enter into liquidation or has its business license revoked and been ordered for closure resulting from violation of laws;

(c) a person or his/her spouse who has a relatively large amount of debts and who is in default of such debts;

(d) a person whose qualification for appointment as director and senior management member has been permanently deprived of by regulatory agencies or who has been punished by regulatory agencies or other financial regulatory authorities for two times cumulatively;

(e) a person who is removed by other commercial banks or organizations for his failure to fulfill obligations in good faith;

(f) a shareholder, or a person employed by an entity shareholder that owes debts (not including debts in the form of deposit or secured by state bond) to our Bank, the amount of which exceeds the audited net share value of his shares in the last fiscal year;

(g) a person, or a person employed by an entity that owes debts to our Bank and is in default on such debts;

(h) other persons without qualifications required by the regulatory authorities; and

(i) other circumstances prescribed in laws, administrative regulations and departmental rules.

The validity of an act of a director, senior management acting on behalf of our Bank is against a bona fide third party not affected by any irregularity in his office, election or any defect in his qualification.

BORROWING POWERS

Our Articles of Association do not specifically provide for the manner in which borrowing powers may be exercised nor do they contain any specific provision in respect of the manner in which such borrowing powers may be amended, except for:

(a) provisions which authorize the Board to formulate proposals for the issuance of debentures and other securities by our Bank; and

(b) provisions which provide that the issuance of debentures and other securities shall be approved by the shareholders' general meeting by a special resolution.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF OUR BANK

Our Articles of Association may be amended by special resolution of the shareholders in a shareholders' general meeting. If the amendments are subject to approval by the relevant PRC government authorities, such approval shall be obtained for such amendments. If a registration is necessary for the amendments, such registration shall be carried out in compliance with the relevant laws.

CHANGE OF RIGHTS OF EXISTING SHARES OR CLASSES OF SHARES

Rights conferred on any class of shareholders in the capacity of shareholders, or class rights, may not be changed or abrogated unless approved by a special resolution of shareholders in a shareholders' general meeting and by holders of shares of that affected class at a separate meeting conducted in accordance with our Articles of Association.

The following circumstances shall be deemed a change or abrogation of the class rights of a shareholder class:

(a) an increase or decrease in the number of shares of such class, or an increase or decrease in the number of class shares having voting or distribution rights or privileges equal or superior to those of the shares of such class;

(b) an exchange of all or part of the shares of such class into shares of another class, or an exchange or the creation of a right to exchange all or part of the shares of another class into the shares of such class;

(c) the removal or reduction of rights to accrued dividends or rights to cumulative dividends attached to shares of such class;

(d) the reduction or removal of a dividend preference or a liquidation preference attached to shares of such class;

(e) the addition, removal or reduction of conversion privileges, options, voting rights or transfer or pre-emptive rights attached to shares of such class, or rights to obtain securities of our Bank;

(f) the removal or reduction of rights to receive payment payable by our Bank in particular currencies attached to shares of such class;

(g) the creation of a new class of shares having voting or distribution rights or privileges equal or superior to those of the shares of such class;

(h) the restriction of the transfer or ownership of the shares of such class or any addition to such restriction;

(i) the issuance of rights to subscribe for, or convert into, shares in our Bank of such class or another class;

(j) the increase of the rights or privileges of shares of another class;

(k) the restructuring of our Bank where the proposed restructuring will not result in different classes of shareholders bearing different degrees of responsibility in respect of liability; and

(l) the variance or abrogation of provisions of "special procedures for voting in class shareholders' meetings" as contained in our Articles of Association.

Interested shareholders (as defined below) shall not be entitled to vote at "class shareholders' meetings".

Resolutions of a class of shareholders shall be passed by votes representing two-thirds or more of the equity of shareholders of that class present at "class shareholders' meetings".

Written notice of a "class shareholders' meeting" shall be given 45 days before the date of the meeting to notify all of the shareholders in the share register of the class of the matters to be considered, the date and the place of such meeting.

Notice of "class shareholders' meetings" need only be served on shareholders entitled to vote thereat.

Meetings of any class of shareholders shall be conducted in a manner as similar as possible to that of shareholders' general meetings of all shareholders unless otherwise provided in our Articles of Association. The provisions of our Articles of Association relating to the manner of conducting a shareholders' general meeting shall apply to any meeting of a class of shareholders.

Other than holders of Shares of other class, holders of domestic shares and H Shares are deemed to be shareholders of different classes.

The special procedures for approval by a class of shares shall not apply in the following circumstances:

(a) where our Bank issues, upon the approval by a special resolution in a shareholders' general meeting, either separately or concurrently once every 12 months, not more than 20% of each of its existing issued domestic shares and overseas-listed shares;

(b) where our Bank's plan to issue domestic shares and overseas-listed shares at the time of its establishment is carried out within 15 months of the date of approval of the securities regulatory authority of the State Council; or

(c) where our shareholder have their unlisted shares listed and traded overseas, upon the approval by the banking regulatory authorities under the State Council and the securities regulatory authority of the State Council.

For the purposes of the class rights provisions of our Articles of Association, the meaning of "interested shareholder(s)" is:

(a) in the case of a repurchase of shares by offers to all shareholders on the same pro rata basis or through public trading on a stock exchange, a "controlling shareholder" within the meaning of our Articles of Association;

(b) in the case of a repurchase of shares by a privately negotiated contract outside of any stock exchange, a shareholder to which the proposed contract relates; and

(c) in the case of a restructuring of our Bank, a shareholder within a class who bears a less than proportionate burden imposed on that class under the proposed restructuring or who has an interest in the proposed restructuring different from the interest of shareholders of that class.

RESOLUTIONS – MAJORITY REQUIRED

Resolutions of shareholders' general meetings shall be divided into ordinary resolutions and special resolutions.

To adopt an ordinary resolution, votes representing more than one-half of the voting rights represented by the shareholders (including shareholders' proxies) present at the meeting must be exercised in favor of the resolution.

To adopt a special resolution, votes representing two-thirds or more of the voting rights represented by the shareholders (including shareholders' proxies) present at the meeting must be exercised in favor of the resolution.

VOTING RIGHTS

The ordinary shareholders of our Bank have the right to attend or appoint a proxy to attend shareholders' general meetings and vote thereat. A shareholder (including shareholders' proxy) when voting at a shareholders' general meeting may exercise voting rights in accordance with the number of voting shares and each voting share shall have one vote.

At any shareholders' general meeting, a resolution shall be decided on a named poll.

On a poll taken at a meeting, a shareholder (including shareholders' proxy) entitled to two or more votes need not cast all his votes in the same way.

REQUIREMENT FOR ANNUAL MEETINGS

An annual shareholders' general meeting shall be convened within six months of the close of a preceding fiscal year.

ACCOUNTS AND AUDIT

Our Bank shall establish its financial and accounting system in accordance with the laws, administrative regulations and rules stipulated by relevant regulatory authorities.

The Board of our Bank shall have a board audit committee which reports and is responsible to the Board. The audit committee shall consist of not less than three members, all of them are non-executive directors, and shall have such responsibilities and powers as prescribed by our Articles of Association.

The Board shall place before the shareholders at every annual shareholders' general meeting such annual financial reports prepared by our Bank that are required by any laws, administrative regulations or any other regulatory documents promulgated by the relevant regional governments and regulatory authorities.

Our Bank's annual financial reports shall be made available at our Bank for shareholders' inspection 20 days before the date of such annual shareholders' general meeting. Each shareholder shall be entitled to obtain a copy of the financial reports. Our Bank shall deliver to each H Share holder our annual financial reports or reports of the Board, along with balance sheet and profit and loss statement at least 21 days before the date of such annual shareholders' general meeting by prepaid mail. Where there are otherwise provisions by the laws, regulations or securities regulatory authority in the listing place where our shares are listed in relation thereto, those provisions shall be observed.

Unless otherwise required by applicable laws, regulations or relevant listing rules, the financial statements of our Bank may, in addition to being prepared in accordance with PRC accounting standards and regulations, be prepared in accordance with either IFRS or the accounting standards of the overseas place where our Bank's shares are listed. If there is any material difference between the annual financial statements prepared in accordance with the two accounting standards, such difference shall be stated in an appendix to the annual financial statements. When our Bank is to distribute its after-tax profits, it may only distribute from the lower of the after-tax profits as shown in the two financial statements.

The annual financial report prepared by our Bank within four months after the end of each fiscal year shall be submitted to the relevant regulatory authorities according to law. Our Bank shall publish its financial report twice each fiscal year, i.e. publish the interim financial report within 60 days after the end of the first six months of each fiscal year and publish its annual financial report within 120 days after the end of the each fiscal year. Where there are otherwise provisions by the securities regulatory authority in the listing place where our shares are listed in relation thereto, those provisions shall be observed.

NOTICE OF MEETINGS AND BUSINESS TO BE CONDUCTED THEREAT

Shareholders' general meetings are divided into annual shareholders' general meetings and extraordinary shareholders' general meetings.

Under any of the following circumstances, our Bank shall convene an extraordinary shareholders' general meeting within two months of the occurrence of any of the following:

(a) when the number of directors is less than two-thirds of the number of directors specified in our Articles of Association;

(b) when the unrecovered losses of our Bank amount to one-third of the total amount of its paid-up share capital;

(c) when such meeting is requested in writing by shareholder(s) holding individually or in aggregate 10% or more of our Bank's voting shares;

(d) when the Board deems it necessary;

(e) when such meeting is proposed by the Board of Supervisors;

(f) when such meeting is requested by more than half of the independent directors (if there are only two independent directors, both of them request such meeting);

(g) when such meeting is requested by more than half of the external supervisors (if there are only two external supervisors, both of them request such meeting); or

(h) in other situations as prescribed by laws, administrative regulations, department rules or our Articles of Association.

When our Bank convenes a shareholders' general meeting, written notice of the meeting shall be given 45 days before the date of the meeting to notify all the shareholders in the share register of the matters to be considered and the date and the place of the meeting. A shareholder who intends to attend the meeting shall deliver his written reply concerning the attendance of the meeting to our Bank 20 days before the date of the meeting.

Our Bank shall, based on written replies from the shareholders received 20 days before the date of the shareholders' general meeting, calculate the number of voting shares represented by shareholders who intend to attend the meeting. If the number of voting shares represented by the shareholders who intend to attend the meeting is one-half or more of our Bank's total voting shares, our Bank may hold the meeting. Otherwise, our Bank shall within five days notify the shareholders again by public notice of the matters to be considered and the place and the date for the meeting. Our Bank then may hold the meeting after the publication of such notice.

A notice of a meeting of shareholders must:

(a) be in writing;

(b) state the venue, date and time of the meeting;

(c) state the matters to be considered at the meeting;

(d) provide such information and explanations as are necessary for the shareholders to exercise an informed judgment on the proposals in respect of the matters to be discussed before them. Without limiting the generality of the foregoing, where a proposal is made to merge our Bank with another, to repurchase shares, to reorganize the share capital or to restructure our Bank in any other way, the terms of the proposed transaction must be provided in detail together with the proposed contract, if any, and the cause and effect of such proposal must be properly explained;

(e) contain a disclosure of the nature and extent of any material interest of a director, supervisor, senior management in the matters for discussion and the effect on his capacity as a shareholder insofar as it is different from the interest of the shareholders of the same class;

(f) contain the full text of any proposed special resolution to be voted at the meeting;

(g) contain a prominent statement that a shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote on his behalf and that a proxy need not be a shareholder;

(h) specify the time and place for lodging power of attorney for the relevant meeting;

(i) specify the record date on which the shareholders are eligible to attend the meeting;

(j) list the name and the phone number of the permanent contact person of the meeting; and

(k) Other requirements as stipulated by laws, administrative rules and regulations, and the Articles of Association.

Unless otherwise required by relevant laws, regulations, listing rules of place(s) where our shares are listed or our Articles of Association, notice of a shareholders' general meeting shall be served on the shareholders (whether or not entitled to vote at the meeting) by delivery or prepaid mail to their addresses as shown in the share register. For the holders of domestic shares, notice of the meetings may be issued by public notice.

The public notice shall be published in one or more newspapers designated by the securities regulatory authority of the State Council between 45 days and 50 days before the date of the meeting. After the publication of such notice, the holders of domestic shares shall be deemed to have received the notice of the relevant shareholders' general meeting. The accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by, any person entitled to receive notice shall not invalidate the proceedings at that meeting.

The following matters shall be decided by an ordinary resolution at a shareholders' general meeting:

(a) work reports of the Board and the Board of Supervisors;

(b) plans formulated by the Board for the distribution of profits and for the making up of losses;

(c) appointment and removal of the members of the Board and members of the Board of Supervisors, their emoluments and method of payment;

(d) annual budgets and annual accounting of our Bank; and

(e) other matters unless required to be approved by special resolutions in accordance with the applicable laws, administrative rules and regulations or otherwise as stipulated by our Articles of Association.

The following matters shall be decided by a special resolution at a shareholders' general meeting:

(a) the increase or decrease of share capital and the issuance of shares of any class, warrants for share subscription and other similar securities;

(b) the issue of debentures of our Bank or listing;

(c) the separation, merger, dissolution and liquidation, or change of corporate form of our Bank;

(d) amendments to our Articles of Association;

(e) share incentive plans;

(f) repurchase the shares of our Bank;

(g) any purchase or sale of our material assets within one year, or provision of guaranty within one year where the amount exceeds 30% of the total amount of our Bank's assets as audited in the latest period; and

(h) any other matters prescribed by the relevant laws, administrative regulations or our Articles of Association, or resolved by the shareholders at a shareholders' general meeting by an ordinary resolution that are significant to our Bank and should be adopted by a special resolution.

TRANSFER OF SHARES

Unless otherwise specified by the relevant laws, regulations, listing rules of place(s) where our shares are listed, the fully paid-up shares of our Bank may be transferred legally without any lien attached. To transfer the shares of our Bank, the transferor shall register with the stock registration organization entrusted by our Bank.

All the fully paid-up H Shares can be freely transferred in accordance with our Articles of Association. For H Shares listed on the Hong Kong Stock Exchange, if the requirements stipulated in our Articles of Association are not met, the Board may refuse to accept any transfer documents without giving explanation for such refusal.

The alteration to, or rectification of, any part of the share register shall be carried out in accordance with the laws of the places(s) where each part of the share register is maintained.

The transfer of our Shares shall comply with relevant provisions as required by the banking regulatory authorities and other regulatory authorities.

PLEDGE OF SHARES

Any shareholder shall be in strict compliance with the laws and regulations, and the requirements of the regulatory authorities if any shares of the Bank are to be pledged for the benefits of his/her own or others. Also, such shareholder must serve a 10 business days' prior notice to the Board.

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, an application shall be filed with the Board of Directors of the Bank 10 business days in advance, which 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. 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. Upon the registration of pledge of equity interests, the shareholders 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.

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 risk and connected transaction control, the filing shall not be accepted.

A shareholder whose outstanding borrowing amount owed to the Bank exceeds the audited net equity interests held by him for the last fiscal year is prohibited from pledging his equity interests in the Bank.

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) nominated by such shareholder at board meetings, shall be subject to restrictions.

POWER OF OUR BANK TO REPURCHASE OUR OWN SHARES

We may, in accordance with the stipulations of laws, administrative regulations and rules, department regulations and our Articles of Association and subject to necessary approvals of the relevant banking regulatory authority and other regulatory authority, repurchase our issued shares under the following circumstances:

(a) for the reduction of our registered capital;

(b) when merging with another company that holds shares in our Bank;

(c) when offering the shares to our employees as a bonus;

(d) when the shareholder disagrees with the resolution of the shareholders' general meeting on the merger or separation of our Bank and requires our Bank to repurchase his shares; and

(e) under other circumstances permitted by the applicable laws, administrative regulations and relevant regulatory authorities.

We may, with the approval of the relevant regulatory authority, conduct the repurchase in any one of the following ways:

(a) making a pro rata offer of repurchase to all of our shareholders;

(b) repurchasing shares through public trading on a stock exchange;

(c) repurchasing by a negotiated agreement outside of any stock exchange; or

(d) by other means as stipulated by the applicable laws and regulations or as approved by the relevant regulatory authority.

Where we repurchase our shares by a negotiated agreement outside of any stock exchange, the prior approval of shareholders' meeting shall be obtained in accordance with our Articles of Association. We may release, vary such a contract, or waive any right thereunder with the prior approval of shareholders obtained in the same manner.

Shares repurchased by our Bank shall be transferred or canceled within the period prescribed by the applicable laws or administrative regulations.

Unless our Bank is being liquidated, it must comply with the following provisions in relation to the repurchase of our issued shares:

(a) where our Bank repurchases our shares at par value, payment shall be made out of our distributable profits or out of proceeds of a fresh issue of shares made for that purpose;

(b) where our Bank repurchases our shares at a premium to par value, payment equivalent to the par value shall be made out of the book balance of our distributable profits, out of the proceeds of a fresh issue of shares made for that purpose. Payment of the portion in excess of the par value shall be effected as follows: (i) if the shares being repurchased were issued at par value, payment shall be made out of the book balance of our distributable profits; or (ii) if the shares being repurchased were issued at a premium to par value, payment shall be made out of the book balance of our distributable profits, out of the proceeds of a fresh issue of shares made for that purpose, provided that the amount paid out of the proceeds of the fresh issue shall exceed neither the aggregate of the premiums received by our Bank on the issue of the shares repurchased nor the current amount (including the premiums on the fresh issue) of our premium account (or capital reserve account);

(c) payment by our Bank in consideration of the following shall be made out of our distributable profits: (i) acquisition of rights to repurchase our shares; (ii) amendment of any contract to repurchase our shares; and (iii) release of any of our obligations under any contract to repurchase our shares; and

(d) after our registered share capital has been reduced by the total par value of the cancelled shares in accordance with the relevant provisions, the amount deducted from the distributable profits for payment of the par value portion of the shares repurchased shall be transferred to our premium account (or capital reserve account).

RIGHT OF OUR SUBSIDIARIES TO OWN SHARES IN OUR BANK

There are no provisions in our Articles of Association preventing a subsidiary of our Bank from owning any of our shares.

DIVIDENDS AND OTHER METHODS OF PROFIT DISTRIBUTION

Our Bank may distribute dividends, bonus in the form of cash or shares.

Our Bank shall appoint receiving agents to receive on behalf of holders of the H Shares dividends declared and all other monies payable by our Bank in respect of their H Shares. The receiving agents appointed on behalf of holders of the H Shares shall be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

PROXIES

Any shareholder entitled to attend and vote at a meeting of our Bank shall be entitled to appoint one or more other persons (whether a shareholder or not) as his proxy to attend and vote on his behalf, and a proxy so appointed shall:

(a) have the same right as the shareholder to speak at the shareholders' general meeting;

(b) have authority to demand a poll or join in such a demand; and

(c) have the right to vote, except that, where a shareholder has appointed more than one proxy, his/her proxies may only exercise the voting rights when a poll is taken.

Shareholders shall entrust the proxy in writing, and the proxy shall be signed by the shareholders or agents authorized by the shareholders in writing. The instrument appointing a voting proxy and, if such instrument is signed by a person under a power of attorney on behalf of the appointer, a notary certified copy of that power of attorney or other authority shall be deposited at the residence of our Bank or at such other place as is specified for that purpose in the notice convening the meeting, not less than 24 hours before the time for holding the meeting at which the proxy proposes to vote or 24 hours before the time specified for voting.

If the appointer is a legal entity, its legal representative or such person as is authorized by its Board or other decision-making authorities may attend our shareholders' general meeting as a representative of the appointer.

Any proxy form used by a shareholder for appointing a proxy to attend and vote at a shareholders' general meeting shall enable the shareholder to instruct the proxy to vote in favor of, against or abstain from voting on each resolution put to vote at the meeting individually. Such a proxy form shall contain a statement, that in the absence of instructions by the shareholder, whether the proxy can vote as he thinks appropriate.

A vote given in accordance with the terms of an instrument appointing the proxy shall be valid notwithstanding the death or incapacity of the appointer or revocation of the proxy or of the authorization granted by the executed appointing instrument, or the relevant shares in respect of which the proxy is given have been transferred, provided that no notice in writing of such death, incapacity, revocation or transfer has been received by our Bank before the commencement of the meeting at which the proxy is used.

CALLS ON SHARES AND FORFEITURE OF SHARES

Our Bank shall have the right to terminate sending dividend warrants to holders of overseas listed shares by mail, but our Bank shall exercise the right only after a dividend warrant fails to be redeemed for two consecutive occasions, however our Bank can exercise the right after the first occasion on which such a dividend warrant is returned as undelivered.

Our Bank shall have the power to sell, in such manner as the Board thinks fit, any overseas listed shares of a shareholder of who is untraceable, but is subject to the following conditions: (i) our Bank has distributed dividends for at least three times in respect of such shares within 12 years, but none of such dividends was claimed; and (ii) our Bank, after the expiration of a period of 12 years, made an advertisement on one or more newspapers of the place which our Bank is listed, stating its intention to sell such shares, and notified the stock exchange of the place which our Bank is listed of such intention.

RIGHTS OF SHAREHOLDERS (INCLUDING INSPECTION OF REGISTER OF SHAREHOLDERS)

The ordinary shareholders of our Bank shall enjoy the following rights:

(a) entitlements to dividends and other forms of interest distributions in proportion to the number of shares held;

(b) to request, convene, preside over, attend or entrust a proxy on their behalf to attend the shareholders' general meeting and to exercise their corresponding voting rights in accordance with laws;

(c) the right to supervise the management and business operations of our Bank, and the right to present proposals or to raise inquiries in relation thereto;

(d) the right to transfer, give or pledge shares in accordance with laws, administrative regulations, and the provisions of our Articles of Association;

(e) the right to obtain relevant information in accordance with laws, administrative rules and regulations, department regulations, regulatory documents, listing rules of place(s) where our shares are listed and provisions of our Articles of Association, including:

   (i) the right to obtain a copy of our Articles of Association, subject to payment of the cost of obtaining such a copy;

   (ii) the right to inspect with free of charge and copy, subject to payment of a reasonable charge:

   - all parts of the register of shareholders;

   - the personal information regarding directors, supervisors, senior management of our Bank;

   - our share capital;

   - reports showing the aggregate par value, quantity, maximum and minimum price paid in respect of each class of shares repurchased by our Bank since the end of the last accounting year, and the aggregate expenses incurred by our Bank for this purpose;

- a copy of the latest annual examination report filed with the State Administration of Industry and Commerce or other competent authorities;

- minutes of the shareholders' general meetings (including the special resolution of our Bank); and

- the latest audited financial statements and the directors', auditors' and supervisors' reports thereon.

(f) in the event of termination or liquidation of our Bank, the right to participate in the distribution of the remaining assets of our Bank in accordance with the number of shares held;

(g) in the event that the shareholder disagrees with the resolution of the shareholders' general meeting on the merger or separation of our Bank, the right to require that our Bank repurchase its shares; and

(h) other rights conferred by the applicable laws, administrative regulations, department regulations or our Articles of Association.

QUORUM FOR MEETINGS AND SEPARATE CLASS MEETINGS

Our Bank may convene a shareholders' general meeting or "class shareholders' meeting" where our Bank has received 20 days before such meeting written replies from shareholders who are entitled and intend to attend the meeting and the number of voting shares held by those shareholders is one-half or more of our voting shares or the voting shares of that class. Otherwise, our Bank shall, within five days, notify the shareholders again by public notice of the matters to be considered and the place and the date for the meeting. Our Bank then may hold the shareholders' general meeting or "class shareholders' meeting".

RIGHTS OF MINORITY SHAREHOLDERS

In addition to obligations on controlling shareholders imposed by the applicable laws, administrative regulations, or requirements imposed by the stock exchange(s) on which our shares are listed, our Articles of Association provide that a controlling shareholder shall not exercise his voting rights, in a manner prejudicial to the interest of the shareholders in general or a part of the shareholder group of our Bank in respect of the following matters:

(a) to relieve a director or supervisor of his duty to act in good faith for the best interest of our Bank;

(b) to approve the expropriation by a director or supervisor (for his own benefit or for the benefit of another person), under any disguise, of our Bank's assets, including (without limitation) opportunities beneficial to our Bank; or

(c) to approve the expropriation by a director or supervisor (for his own benefit or for the benefit of another person) of the rights of other shareholders, including (without limitation) rights to distributions and voting rights, except pursuant to a restructuring submitted to the shareholders' general meeting for approval in accordance with our Articles of Association.

For these purposes, a "controlling shareholder" means a person who satisfies any one of the following conditions:

- alone, or acting in concert with others, has the power to elect half or more of the Board;
- alone, or acting in concert with others, has the power to exercise or to control the exercise of 30% or more of the voting rights in our Bank;
- alone, or acting in concert with others, holds 30% or more of the shares of our Bank; or
- alone, or acting in concert with others, having de-facto controls our Bank in any other manner.

PROCEDURES ON LIQUIDATION

Our Bank shall be dissolved upon the occurrence of any of the following events:

(a) a resolution for dissolution is passed by shareholders at a shareholders' general meeting;

(b) dissolution is necessary due to a merger or separation of our Bank (dissolution under such circumstances requires no liquidation);

(c) our Bank has its business license revoked or is ordered to be closed down or dissolved pursuant to the law;

(d) our Bank meets any serious difficulty in its operations or management so that the interests of the shareholders will face significant loss if it continues to exist and the problem cannot be solved by any other means; the shareholders who hold 10% or more of the voting rights of the issued shares of the company may ask the people's court to dissolve the company; or

(e) our Bank is legally declared bankrupt.

Where the Board decides to liquidate our Bank due to reasons other than insolvency, the Board shall include a statement in its notice convening a shareholders' general meeting to the effect that, after making full inquiry into the affairs of our Bank, the Board is of the opinion that our Bank will be able to repay its debts in full within 12 months of the commencement of the liquidation.

Upon the adoption of the resolution to liquidate our Bank in a shareholders' general meeting, all functions and powers of the Board shall cease immediately.

The liquidation committee shall act in accordance with the instructions of the shareholders' general meeting to make a report at least once every year to the shareholders' general meeting on the liquidation committee's receipts and payments, the business of our Bank and the progress of the liquidation and to present a final report to the shareholders' general meeting upon completion of the liquidation.

OTHER PROVISIONS MATERIAL TO OUR BANK AND OUR SHAREHOLDERS

General Provisions

Our Articles of Association become effective on the date our H Shares are listed on the Hong Kong Stock Exchange. Thereafter, our Articles of Association constitute a legally binding document regulating our organization and activities, and the rights and obligations between our Bank and each shareholder and among the shareholders inter se.

Our Bank may, based on its needs for operation and development and in accordance with applicable laws and regulations, increase its capital upon resolution at the shareholders' general meeting and subject to approval by the relevant regulatory authority.

Our Bank may increase its capital in the following ways:

(a) public offering of shares;

(b) non-public offering of shares;

(c) placing new shares to its existing shareholders;

(d) distributing new shares to its existing shareholders;

(e) covering capital reserve into capital; and

(f) using any other ways permitted by the applicable laws, administrative regulations and relevant regulatory authority.

Any increase of capital by issuing new shares shall, after being approved in accordance with the provisions of our Articles of Association, be conducted in accordance with the procedures stipulated by the applicable laws and administrative regulations.

Each shareholder of our Bank shall assume the following obligations:

(a) to abide by laws, administrative regulations and our Articles of Association;

(b) to pay subscription monies according to the number of shares subscribed and the method of subscription;

(c) not to withdraw the shares unless in circumstances as permitted by applicable laws and regulations;

(d) shareholders shall fulfill their fiduciary duties to the Bank to ensure that the information they 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 truly, accurately and completely to the Board of Directors and undertake to report timely to the Board of Directors when there are changes to such related-party relationship;

(e) shareholders shall not seek improper gain or intervene with the decision-making and management rights exercised by the Board of Directors and senior management pursuant to the Articles of Association; nor shall they intervene directly with the Bank's operation and management by going over the Board of Directors and senior management, or damage the interests of the Bank and other stakeholders' legal interests;

(f) any entity or person shall not, without the approval of relevant banking supervisory and management authorities, transfer under private agreement or effectively control through entrustment more than five per cent of the Bank's shares in violation of regulations. The violation shall be rectified within a specified period and no shareholder's rights may be exercised in respect of the affected shares before the rectification;

(g) not to abuse the rights of shareholders to damage the interests of the Bank or other shareholders; not to abuse the independent status of the corporate juridical person or limited liability of shareholders to damage the interests of the Bank's creditors; Where the Bank's shareholders abuse the rights of shareholders to damage the interests of the Bank or other shareholders, they shall assume liability for compensation; Where the Bank's shareholders abuse the independent status of the corporate juridical person or limited liability of shareholders to avoid debts, or cause a serious damage to the interests of the Bank's creditors, they shall be jointly and severally liable for the Bank's debts; and

(h) to assume other obligations imposed by the applicable laws and administrative regulations or our Articles of Association.

Shareholders are not liable to make any further contribution to the share capital other than as agreed by the subscriber of the relevant shares on subscription.

Directors' Qualification Shares

A director is a natural person, who does not necessarily hold the shares of our Bank.

BOARD OF SUPERVISORS

Our Bank shall establish a Board of Supervisors. The directors, president and other senior management shall not act concurrently as supervisors. The Board of Supervisors shall be composed of nine supervisors. The Board shall have one chairman and one vice chairman. The term of office of supervisors shall be three years, renewable upon re-election. The election or removal of the chairman and the vice chairman shall be determined by two-thirds or more of the members of the Board of Supervisors. A resolution of the Board of Supervisors shall be passed by two-thirds or more of the members of the Board of Supervisors.

The Board of Supervisors shall consist of external supervisor(s) elected and removed by a shareholders' general meeting. Supervisors representing shareholders shall be elected and removed by a shareholders' general meeting; the employee supervisors shall be elected by the employees of our Bank at a staff representative assembly or otherwise.

The Board of Supervisors shall be accountable to the shareholders and exercise the following powers in accordance with law:

(a) to review the regular reports by our Board and opine on the reports in writing;

(b) to examine and supervise our financial activities;

(c) to oversee and evaluate the conduct of our directors and senior management in carrying out their duties; to oversee the conduct of our directors and senior management in performing their duties, propose removal of our directors and senior management, who have violated laws, administrative rules and regulations, our Articles of Association or resolutions of the shareholders' meeting;

(d) to demand that director and senior management rectify their conduct when such conduct is prejudicial to the interests of our Bank;

(e) to propose the convening of extraordinary shareholders' general meetings, and to convene and preside over the shareholders' general meetings if our Board fails to call and preside over such a meeting as required;

(f) to present proposals to the shareholders' general meetings;

(g) to carry out an audit of any resigning directors, president and other senior management if necessary;

(h) to inquire into directors, chairman of the Board and senior management;

(i) to review our Bank's profit distribution proposals and express its opinion on the appropriateness of the profit distribution proposals;

(j) to conduct auditing over the issues in connection with our operation and decision-making, risk management and internal control;

(k) to bring actions against directors and senior management according to the PRC Company Law;

(l) to investigate any irregularities in the operations of our Bank, and may engage accounting firms, law firms or other professional firms to assist its work if necessary; and

(m) to exercise other powers prescribed by our Articles of Association, and powers conferred by the shareholders' general meeting.

PRESIDENT

Our president shall be responsible to the Board and exercise the following powers:

(a) to be in charge of the business operation of our administration, and report on his work to the Board;

(b) to submit to the Board the operation plans and investment plans on behalf of the senior management and, after approval of the Board, to organize the implementation of the resolutions of the Board, our annual plan and our investment proposal;

(c) to draft plans for the establishment of our internal management departments;

(d) to draft our basic management system and to formulate specific rules for our Bank;

(e) to propose to the Board to appoint or dismiss our vice president and financial officer;

(f) to appoint or dismiss management (other than those required to be appointed or dismissed by the Board);

(g) to authorize senior management, chief officers of our internal departments and the branches to engage in business operation;

(h) to formulate the remuneration of, benefits for, incentives for and punishment of our employees and to decide the engagement and dismissal of employees;

(i) to take urgent measures in case of a run on our Bank or other major emergencies, and report to banking regulatory authority in the PRC, the Board, and Board of Supervisors immediately; and

(j) to exercise other powers conferred by our Articles of Association or granted by the Board.

Our president shall be present at meetings of the Board. However, the president shall have no voting rights at the meetings unless he is also a director.

BOARD

The Board is accountable to the shareholders and exercises the following powers:

(a) to convene shareholders' general meetings and to report on its performance to shareholders at the shareholders' general meetings;

(b) to implement the resolutions of the shareholders' general meetings;

(c) to decide on our development plans, operational plans, investment plans;

(d) to formulate our proposed annual budgets and annual accounting;

(e) to formulate our profit distribution plans and plans for recovery of losses;

(f) to formulate proposals for increases in or reductions of our registered share capital, issuance of bonds or other securities and listing plans;

(g) to formulate proposals for material acquisitions, the repurchase of our shares, merger, separation, change of the form of our Bank or dissolution of our Bank;

(h) within the scope authorized by our shareholders' general meetings, to decide on significant matters that are not daily business, such as external investments, purchases and sales of assets, pledges of assets, external guarantees, entrusted wealth management and connected transaction;

(i) to decide on the establishment of our internal management departments and non-legal person branches registered outside of the registered place of our Bank;

(j) to appoint or remove our president and secretary to our Board based on the nominations by the chairman; to appoint or remove senior management, such as the vice presidents, head of finance department based on the nominations by the president and to decide on matters relating to their emoluments and on the imposition of any disciplinary measures;

(k) to formulate the standard policies on the remuneration and allowance of our directors;

(l) to establish our basic management system, decide on policies in respect of our risk management, internal control and compliance;

(m) to formulate proposals for any amendment to our Articles of Association;

(n) to manage our disclosure of information, include risk management of our regulatory data into the routine work, ensure implementation of responsibilities in all aspects and manage information disclosure matters of our Bank;

(o) to propose to the shareholders' meeting the appointment, change or discontinuing to appoint the accounting firms auditing our Bank;

(p) to review working reports of the president and to examine the president's performance;

(q) to review any material capital expenses, contracts and commitments which beyond the expense limits set by the Board for the senior management;

(r) to formulate the strategies on selling or transferring all or most of our Bank's business or assets;

(s) to develop the shareholding incentive or repurchase scheme, and to decide on the measures to link employees' salaries with the operational performance of the Bank; and

(t) to exercise any other power prescribed by the applicable laws, administrative regulations and rules, department regulations, as well as any other power conferred by our Articles of Association and shareholders' meeting.

Regular meetings of the Board shall be held by the Board at least four times every year and be convened by the chairman of the Board. Notice of the meeting shall be served on all of the directors and supervisors in writing 14 days before the date of a regular meeting.

Meetings of the Board shall be held only if more than half of the directors are present. Each director shall have one vote. When the vote is equal, the chairman shall have one more vote.

RESOLUTION OF DISPUTES

Whenever any disputes or claims arise from any rights or obligations provided in our Articles of Association, the PRC Company Law or any other relevant laws, administrative regulations and such claims concern the affairs of our Bank and are between holders of the H Shares and our Bank, holders of the H Shares and our directors, supervisors, senior management, or holders of the H Shares and holders of our domestic shares, the relevant parties shall forthwith refer such disputes or claims to arbitration for resolution.

The disputes or claims mentioned above which are referred to arbitration shall be the entire dispute and claim; all persons having a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of the disputes or claims, shall abide by such arbitration if such person is the Bank or a shareholder, director, supervisor or senior management of the Bank.

Disputes over the identity of a shareholder and over the register of shareholders do not have to be resolved through arbitration.

A claimant may elect for arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant.

If a claimant elects for arbitration at the HKIAC, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the HKIAC.

Where a dispute or claim is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim, or whose participation is necessary for the resolution of such dispute or claim, shall abide by the arbitration, provided that such person is our shareholder, director, supervisor or senior management.

The decision of an arbitration body shall be final, conclusive and binding on all parties.

1. TAXATION OF SECURITY HOLDERS

The taxation of income and capital gains of holders of H Shares is subject to the laws and practices of the PRC and of jurisdictions in which holders of H Shares are resident or otherwise subject to tax. The following summary of certain relevant taxation provisions is based on current 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 adviser regarding the tax consequences of an investment in the H Shares. The discussion is based upon laws and relevant interpretations in effect as of the date of this prospectus, all of which are subject to change and may have retrospective effect.

A. The PRC Taxation

Certain PRC tax provisions related to the ownership and disposal of H Shares purchased under the Global Offering and held by the investors as capital assets are summarized below. This summary does not purport to address all material tax consequences of the ownership of H Shares and does not take into account the specific circumstances of any particular investors. This summary is based on various PRC tax laws as in effect as of the date of this prospectus, all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

This discussion does not address any aspects of PRC taxation other than income tax, capital tax, stamp duty and estate duty. Prospective investors are urged to consult their financial advisers regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H Shares.

Taxation 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税法》) (the "IIT Law"), which was promulgated on September 10, 1980 and amended on October 31, 1993, August 30, 1999, October 27, 2005, June 29, 2007, December 29, 2007 and further amended and came into effect on June 30, 2011 and the Regulations on Implementation of the Individual Income Tax Law of the PRC (《中華人民共和國個人所得税法實施條例》), which was promulgated on January 28, 1994 and amended on December 19, 2005 and February 18, 2008 and further amended and came into effect on July 19, 2011, 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"), 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》), both effective 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 on avoidance of 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股非居民法人股東派發股息代扣代繳企業所得稅有關問題的通知》), which was issued by the SAT and came into effect 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 non-PRC resident enterprise shareholders of H Shares with respect to the dividends distributed out of profit generated after January 1, 2008. 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覆》), 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, the Chinese 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.

Tax Treaties

Investors who are not PRC residents and reside in countries which have entered into avoidance of double taxation treaties with the PRC 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 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

<u>Individual Investors</u>

According to the IIT Law and its implementation provisions, gains realized on the sale of equity interests in PRC resident enterprises are subject to the income tax at a rate of 20%, unless such tax is reduced or exempted under relevant double taxation treaties.

<u>Enterprise Investors</u>

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 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 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税暫行條例》) 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税暫行條例實施細則》) effective as of October 1, 1988, 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, as PRC stamp duty is only applicable to such documents as executed or received within the PRC and having legally binding force in the PRC and protected under the PRC laws.

Estate Duty

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

As stipulated under the CIT Law, enterprises and other organizations which generate income within the PRC are corporate income tax payers and shall pay corporate income tax pursuant to the CIT Law. The CIT Law and its implementation provisions came into effect on January 1, 2008, while the former Income Tax Law of the PRC Concerning Foreign Investment Enterprises and Foreign Enterprises (《中華人民共和國外商投資企業和外國企業所得稅法》) and Provisional Regulations of the PRC on Corporate Income Tax (《中華人民共和國企業所得稅暫行條例》) were abrogated on the same date.

Pursuant to the CIT Law and its implementation provisions, the income tax rate for PRC enterprises is reduced from the original 33% to 25%, same as the rate applied to foreign investment enterprises and foreign enterprises.

Business Tax

Pursuant to the Provisional Regulations of the PRC on Business Tax (《中華人民共和國營業稅暫行條例》), which became effective on January 1, 1994, subsequently amended on November 5, 2008 and implemented on January 1, 2009, enterprises (including foreign investment enterprises) and individuals that provide various labor services and transfer intangible assets or sell real estate within the PRC are subject to business tax at a rate of 3% or 5% of the amount of taxable services or other transactions, except for the entertainment sector, the turnover of which is subject to business tax at a rate of 5% to 20%. Financial and insurance companies are subject to a 5% business tax.

According to the Pilot Reform for Transition from Business Tax to VAT (《營業稅改徵增值稅試點方案》) (Cai Shui [2011] No. 110) issued by the MOF and SAT and effected on November 16, 2011, pilot reforms for transition from business tax to VAT have been started since January 1, 2012 in certain service industries such as transportation and some of the modern service industries in pilot areas such as Shanghai and Beijing. According to a further notice of the MOF and the SAT, such reform has been expanded nationwide since August 1, 2013. However, as of the Latest Practicable Date, it remained unclear whether the finance and insurance industry has been included in the pilot industries for transition from business tax to VAT.

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 authority of PBOC, is responsible for administration of all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

In accordance with the Notice of the State Council on Further Reforming the Foreign Exchange Management System (《關於進一步改革外匯管理體制的通知》) (Guo Fa [1993] No. 89) issued by the State Council, since January 1, 1994, the conditional convertibility of Renminbi in current account items has been implemented, and the official Renminbi exchange rate and the market rate for Renminbi have been unified. The former dual exchange rate system for Renminbi had been abolished and a unitary and managed floating rate based on market demand and supply was introduced. The PBOC set and published daily the medium price of Renminbi against the U.S. dollar and the exchange rates of Renminbi against other currencies in reference to the changes in the international foreign exchange markets, which was permitted to float to a certain extent in foreign exchange transactions.

On January 29, 1996, the State Council promulgated new Regulations of the PRC for Foreign Exchange Control (《中華人民共和國外匯管理條例》) (the "Foreign Exchange Control Regulations") which became effective on April 1, 1996. The Foreign Exchange Control Regulations classifies all international payments and transfers into current account items and capital account items. Most of the current account items are no longer subject to SAFE's approval, while capital account items still are. The Foreign Exchange Control Regulations were subsequently amended on 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 account payments and transfers.

On June 20, 1996, the PBOC promulgated the Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》) (the "Settlement Regulations") which became effective on July 1, 1996. The Settlement Regulations abolished the remaining restrictions on convertibility of foreign exchange under current account items, while retaining the existing restrictions on foreign exchange transactions under capital account items.

According to the Announcement on Improving the Reform of the Renminbi (《關於完善人民幣匯率形成機制改革的公告》) (PBOC Announcement (2005) No. 16), issued by the PBOC on July 21, 2005 and effective on the same date, the PRC began to implement a managed floating exchange rate system in which the exchange rate would be determined based on market supply and demand and adjusted with reference to a basket of currencies. The Renminbi exchange rate was no longer pegged to the U.S. dollar. The PBOC would publish the closing price of the Renminbi against foreign currencies such as the U.S. dollar in the inter-bank foreign exchange market after the closing of the market on each business day, and would fix the central parity for Renminbi transactions on the following business day.

Starting from January 4, 2006, the PBOC introduced over-the-counter transactions into the inter-bank spot foreign exchange market for the purpose of improving the formation mechanism of the central parity of Renminbi exchange rates, and the practice of matching was kept at the same time. In addition to the above, the PBOC introduced the market-maker rule to provide liquidity to the foreign exchange market. On July 1, 2014, the PBOC further improved the formation mechanism of the RMB exchange rate by authorizing the China Foreign Exchange Trade System to make inquiries with the market makers before the inter-bank 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, and announce it at 9:15 a.m. on each business day.

On August 5, 2008, the State Council promulgated the revised Regulations of the PRC for Foreign Exchange Control (the "Revised Foreign Exchange Control Regulations"), which have made substantial changes to the foreign exchange supervision system of the PRC. First, the Revised Foreign Exchange Control Regulations have adopted an approach of balancing the inflow and outflow of foreign exchange. Foreign exchange income received overseas can be repatriated or deposited overseas, and foreign exchange and foreign exchange settlement funds under the capital account are required to be used only for purposes as approved by the competent authorities and foreign exchange administrative authorities. Second, the Revised Foreign Exchange Control Regulations have improved the mechanism for determining the RMB exchange rate based on market supply and demand. Third, the Revised Foreign Exchange Control Regulations have enhanced the monitoring of cross-border foreign currency fund flows. In the event that revenues and costs in connection with international transactions suffer or may suffer a material misbalance, or the national economy encounters or may encounter a severe crisis, the State may adopt necessary safeguard or control measures. Fourth, the Revised Foreign Exchange Control Regulations have enhanced the supervision and administration of foreign exchange transactions and grant extensive authorities to the SAFE to enhance its supervisory and administrative powers.

Pursuant to the relevant State rules and regulations, all of the foreign exchange revenue of the PRC enterprises from the existing current account transactions may be retained or sold to financial institutions operating a foreign exchange sale or settlement business. Foreign exchange income from loans granted by overseas entities or from the issuance of bonds and shares (such as foreign exchange income our Bank obtained from the sale of shares overseas) is not required to be sold to, but may be deposited in foreign exchange accounts at, designated foreign exchange banks.

PRC enterprises (including foreign investment enterprises) which need foreign exchange for transactions relating to current account items may, without the approval of the SAFE, effect exchange and payment from their foreign exchange accounts or at the designated foreign exchange banks, on the strength of valid receipts and proof. Foreign investment enterprises which need foreign exchange for the distribution of profits to their shareholders and PRC enterprises which, in accordance with 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 approving the distribution of profits, effect exchange and payment from their foreign exchange accounts or convert and pay dividends at the designated foreign exchange banks.

On January 28, 2013, the SAFE issued the Notice of the State Administration of Foreign Exchange on Issues Concerning the Foreign Exchange Administration of Overseas Listing (《國家外匯管理局關於境外上市外匯管理有關問題的通知》), pursuant to which (i) a domestic issuer shall, within 15 business days of the end of its initial public offering overseas, register the overseas listing with the SAFE's local branch at the place of its incorporation; any domestic holder of the overseas shares shall register its overseas shareholding with the SAFE's local branch at its jurisdiction in the event it increases or decreases its shareholding of the overseas shares; (ii) the SAFE branch shall issue a certificate of overseas listing upon verification, with which the domestic issuer can open a special account with a local bank for purposes of handling the funds in connection with its overseas initial public offering or additional issuance or share repurchase. The domestic shareholder of the issuer shall open a special account in a local bank at its jurisdiction for handling the funds in connection with the increase or decrease in its overseas shareholding based on the certificate of overseas shareholding it received from the SAFE's local branch; and (iii) the proceeds from an overseas listing may be remitted to the domestic account or deposited in an overseas account, but the use of the proceeds shall be consistent with the content of the prospectus and other disclosure documents. The conversion of proceeds remitted to domestic accounts into RMB shall be approved by the local SAFE branch.

On November 24, 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 for the remittance and settlement of the proceeds raised from the overseas listing of the foreign shares into RMB domestic accounts. So far, the SAFE has not promulgated any specific rules in this regard.

Dividends to holders of H Shares are declared in Renminbi but must be paid in Hong Kong dollars.

1. FURTHER INFORMATION ABOUT OUR BANK

A. Incorporation

Our Bank was incorporated as a joint stock limited liability company in the PRC in September 1997 under the PRC Company Law under the name of "Shenyang City Cooperative Bank Co., Ltd.". In June 1998, our Bank was renamed as "Shenyang Commercial Bank Co., Ltd.", and subsequently in February 2007, our name was further changed to "Shengjing Bank Co., Ltd.". Our registered address is at No. 109 Beizhan Road, Shenhe District, Shenyang, Liaoning Province, China. Our Bank has established a principal place of business in Hong Kong at Room 08-09, 18/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong and has been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance. Mr. Wan Chi Shing 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 CBRC and the PBOC. We are not an authorized institution within the meaning of the Banking Ordinance, and are not subject to the supervision of the Hong Kong Monetary Authority, nor authorized to carry on banking and/or deposit-taking business in Hong Kong.

As we are incorporated in the PRC, our corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. A summary of certain relevant aspects of the laws and regulations of the PRC is set out in Appendix IV. A summary of the relevant provisions of our Articles of Association is set out in Appendix V.

B. Changes in Share Capital

At the time of our establishment, our initial registered capital was RMB216,275,200, divided into 216,275,200 Domestic Shares of nominal value of RMB1.00 each, all of which were fully paid up.

During the two years preceding to the date of this prospectus, our Bank recorded the following changes in our registered capital:

On May 6, 2014, following the capital injection by five new corporate shareholders, our registered capital was increased from RMB3,696,005,200 to RMB4,396,005,200 divided into 4,396,005,200 Domestic Shares of nominal value of RMB1.00 each, which was credited as fully paid up.

Save as disclosed above, within the two years preceding the date of this prospectus, there has been no alteration in our registered capital.

There were certain incidents of non-compliance in the course of our establishment and subsequent registered capital changes and share transfers, including incomplete asset appraisal procedures, cross shareholdings, unqualified shareholders, unverified shareholders, non-compliant share transfers, share transfers with incomplete documentation and incomplete procedures relating to state-owned assets appraisal during the registered capital increases. We have taken necessary measures to rectify such non-compliances, which measures have been approved or acknowledged by competent regulatory authorities, including the CBRC Liaoning Bureau and the Business Administrative Department of the PBOC Shenyang Branch. The Liaoning Provincial Government and the Shenyang Municipal Government have acknowledged that our establishment, the historical registered capital increases and decreases and share transfers have in general been in compliance with applicable laws and regulations, and that in the event of any future dispute or other issues arising out of such non-compliances, the relevant authority of the Shenyang Municipal Government will coordinate to have them resolved. As a result, the foregoing non-compliances would not have a substantial adverse effect on the Listing.

According to the opinion of our PRC legal advisor, Tian Yuan Law Firm, the foregoing non-compliances would not have a material adverse effect on our valid existence or the certainty and stability of our shareholding structure, and therefore would not have a substantial adverse effect on the Listing.

Immediately after the Global Offering, our registered capital will be RMB5,646,005,200, consisting of 4,271,005,200 Domestic Shares and 1,375,000,000 H Shares, which represent approximately 75.65% and 24.35% of the registered capital, respectively (assuming the Over-Allotment Option is not exercised).

C. Restriction on Share Repurchase

For details of the restrictions on the share repurchase by our Bank, please see the section entitled Appendix V – "Summary of Articles of Association – Power of Our Bank to Repurchase Our Own Shares".

D. Resolution of Our Shareholders

Resolutions were passed by our shareholders on April 26, 2014, pursuant to which, among other matters, our shareholders:

(a) approved the conversion of our company into an overseas subscription joint stock company;

(b) approved the issuance and offering of H Shares and the granting of the Over-Allotment Option;

(c) approved the listing of H Shares on the Hong Kong Stock Exchange; and

(d) authorized our Board of Directors to handle all matters relating to the listing of our H Shares.

2. OUR SUBSIDIARIES AND CHANGES IN THE SHARE CAPITAL OF OUR SUBSIDIARIES

Our subsidiaries are set forth in the Accountants' Report, the full text of which is set out in Note 21 of Appendix I – "Accountants' Report".

(a) On February 9, 2009, Shenyang Shenbei Fumin Village Bank Co., Ltd. (瀋陽瀋北富民村鎮銀行), a company incorporated in the PRC, commenced business with a total registered capital of RMB150 million, 20% of which is directly held by us.

(b) On June 25, 2010, Shenyang Xinmin Fumin Village Bank Co., Ltd. (瀋陽新民富民村鎮銀行), a company incorporated in the PRC, commenced business with a total registered capital of RMB30 million, 20% of which is directly held by us.

(c) On October 26, 2010, Shenyang Faku Fumin Village Bank Co., Ltd. (瀋陽法庫富民村鎮銀行), a company incorporated in the PRC, commenced business with a total registered capital of RMB30 million, 20% of which is directly held by us.

(d) On November 26, 2010, Shenyang Liaozhong Fumin Village Bank Co., Ltd. (瀋陽遼中富民村鎮銀行), a company incorporated in the PRC, commenced business with a total registered capital of RMB30 million, 20% of which is directly held by us.

(e) On August 17, 2011, Ningbo Jiangbei Fumin Rural Bank Co., Ltd. (寧波江北富民村鎮銀行), a company incorporated in the PRC, commenced business with a total registered capital of RMB100 million, 30% of which is directly held by us.

(f) On September 9, 2011, Shanghai Baoshan Fumin Rural Bank Co., Ltd. (上海寶山富民村鎮銀行), a company incorporated in the PRC, commenced business with a total registered capital of RMB150 million, 40% of which is directly held by us.

Save as disclosed above, there has been no alteration in the registered capital of our subsidiaries within the two years preceding the date of this prospectus.

3. FURTHER INFORMATION ABOUT OUR BUSINESS

A. Summary of our material contracts

We have entered into the following contracts (not being contracts entered into in our ordinary course of business) within the two years preceding the date of this prospectus, which are or may be material:

(a) a share subscription agreement dated September 30, 2013, entered into between Dalian Hesheng Holding Co., Ltd. (大連和升控股集團有限公司) and us in Chinese language, pursuant to which we agreed to issue, and Dalian Hesheng Holding Co., Ltd. agreed to subscribe for, 100,000,000 Shares for a cash consideration of RMB550,000,000;

(b) a share subscription agreement dated September 30, 2013, entered into between Changchun Qianyuan Real Estate Development and Construction Co., Ltd. (長春乾源房地產開發建設有限公司) and us in Chinese language, pursuant to which we agreed to issue, and Changchun Qianyuan Real Estate Development and Construction Co., Ltd. agreed to subscribe for 80,000,000 Shares for a cash consideration of RMB440,000,000;

(c) a share subscription agreement dated September 30, 2013, entered into between Dalian Hydraulic Machinery Co., Ltd. (大連液力機械有限公司) and us in Chinese language, pursuant to which we agreed to issue, and Dalian Hydraulic Machinery Co., Ltd. agreed to subscribe for, 70,000,000 Shares for a cash consideration of RMB385,000,000;

(d) a share subscription agreement dated October 11, 2013, entered into between Beijing Zhaotai and us in Chinese language, pursuant to which we agreed to issue, and Beijing Zhaotai agreed to subscribe for, 300,000,000 Shares for a cash consideration of RMB1,650,000,000;

(e) a share subscription agreement dated October 11, 2013, entered into between Beijing Aojitong Investment (Group) Co., Ltd. (北京奧吉通投資(集團)有限公司) and us in Chinese language, pursuant to which we agreed to issue, and Beijing Aojitong Investment (Group) Co., Ltd. agreed to subscribe for, 150,000,000 Shares for a cash consideration of RMB825,000,000;

(f) a cornerstone investment agreement dated December 10, 2014 entered into among Bondic International Holdings Limited, China Merchants Securities (HK) Co., Limited and us pursuant to which Bondic International Holdings Limited agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 500 H Shares) that may be purchased with an aggregate amount of US$200 million (exclusive of a brokerage fee of 1%, a Hong Kong Stock Exchange trading fee of 0.005% and a SFC transaction levy of 0.0027%) at the Offer Price;

(g) a cornerstone investment agreement dated December 10, 2014 entered into among Sheng Hua Financial Stable Growth Investment Fund SP, China Merchants Securities (HK) Co., Limited, Sheng Yuan Securities Limited and us pursuant to which Sheng Hua Financial Stable Growth Investment Fund SP agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 500 H Shares) that may be purchased with an aggregate amount of US$200 million (inclusive of a brokerage of 1%, a Hong Kong Stock Exchange trading fee of 0.005% and a SFC transaction levy of 0.0027%) at the Offer Price;

(h) a cornerstone investment agreement dated December 10, 2014 entered into among Mr. Suen, Cho Hung Paul, China Merchants Securities (HK) Co., Limited, Sheng Yuan Securities Limited and us pursuant to which Mr. Suen, Cho Hung Paul agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 500 H Shares) that may be purchased with an aggregate amount of US$180 million (inclusive of a brokerage fee of 1%, a Hong Kong Stock Exchange trading fee of 0.005% and a SFC transaction levy of 0.0027%) at the Offer Price;

(i) a cornerstone investment agreement dated December 10, 2014 entered into among Chow Tai Fook Nominee Limited, China Merchants Securities (HK) Co., Limited and us pursuant to which Chow Tai Fook Nominee Limited agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 500 H Shares) that may be purchased with an aggregate amount of US$100 million (exclusive of a brokerage fee of 1%, a Hong Kong Stock Exchange trading fee of 0.005% and a SFC transaction levy of 0.0027%) at the Offer Price;

(j) a cornerstone investment agreement dated December 10, 2014 entered into among Prospect Vantage Holdings Limited, China Strategic Holdings Limited, China Merchants Securities (HK) Co., Limited, Sheng Yuan Securities Limited and us pursuant to which Prospect Vantage Holdings Limited agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 500 H Shares) that may be purchased with an aggregate amount of US$20 million (inclusive of a brokerage fee of 1%, a Hong Kong Stock Exchange trading fee of 0.005% and a SFC transaction levy of 0.0027%) at the Offer Price; and

(k) the Hong Kong Underwriting Agreement.

B. Intellectual Property Rights

As of the Latest Practicable Date, we have registered the following intellectual property rights which are material to our business:

(a) Trademarks

As of the Latest Practicable Date, we have applied for the registration of the following trademarks which are material to our business:

No.	Trademark	Place of Registration	Application Class(es)	Application No.	Application Date
1	盛京銀行 SHENGJING BANK	PRC	36	5936868	March 12, 2007
2		PRC	36	12017801	January 9, 2013
3	沈阳沈北富民村镇银行股份有限公司 SHENYANG SHENBEI FUMIN RURAL BANK LIMITED COMPANY	PRC	36	12017802	January 9, 2013
4	盛京金控大廈	PRC	36	14568365	May 29, 2014
5	盛京銀行金融廣場	PRC	36	14568366	May 29, 2014
6	盛京金融中心	PRC	36	14568367	May 29, 2014
7	盛京金融廣場	PRC	36	14568368	May 29, 2014
8	盛銀聚薪易	PRC	36	14568369	May 29, 2014
9	盛銀便民服務站 Shengjing Bank service station	PRC	36	14568371	May 29, 2014
10	九彩玫瑰 绚丽人生	PRC	36	14568373	May 29, 2014

No.	Trademark	Place of Registration	Application Class(es)	Application No.	Application Date
11	盛银多得利	PRC	36	14568375	May 29, 2014
12	盛银快貨通	PRC	36	14568376	May 29, 2014
13	盛银薪增利	PRC	36	14568377	May 29, 2014
14	盛银大厦	PRC	36	14568379	May 29, 2014
15	盛京大厦	PRC	36	14568380	May 29, 2014
16	盛银易得利	PRC	36	14568381	May 29, 2014
17	盛银E Shengjing Bank E	PRC	36	14568382	May 29, 2014
18	玫瑰卡 Rose Card	PRC	36	14568384	May 29, 2014
19	盛京銀行 SHENGJING BANK	Hong Kong	35, 36	303074067	July 21, 2014
20	盛京銀行 SHENGJING BANK	Hong Kong	35, 36	303074076	July 21, 2014
21	盛京銀行 SHENGJING BANK	Hong Kong	35, 36	303074085	July 21, 2014
22		Hong Kong	35, 36	303074102	July 21, 2014

(b) Computer Software Copyrights

As of the Latest Practicable Date, we had registered the following computer software copyrights which are material to our business:

No.	Title	Place of Registration	Type	Registration Date	Registration No.
1	Risk Information Management System V1.0 (風險信息管理系統V1.0)	PRC	Computer Software	February 6, 2013	2013SR012313
2	Equity Interest Management System V1.0 (股權管理系統V1.0)	PRC	Computer Software	February 6, 2013	2013SR012306

(c) Domain Names

As of the Latest Practicable Date, we have registered the following material Internet domain names:

No.	Domain Name	Place of Registration	Owner	Effective Period
1	shengjingbank.cn	PRC	Shengjing Bank Co., Ltd.	From December 25, 2006 Until December 25, 2024
2	shengjingbank.com.cn	PRC	Shengjing Bank Co., Ltd.	From December 25, 2006 Until December 25, 2024
3	shengjingbank.net.cn	PRC	Shengjing Bank Co., Ltd.	From December 25, 2006 Until December 25, 2024

Save as disclosed herein, there are no other trademarks, patents or other intellectual or industrial property rights which are material to our business.

C. Our Depositors and Borrowers

Our five largest depositors and five largest borrowers accounted for less than 30% of the respective total deposits and loans and advances to customers as of the Latest Practicable Date.

4. FURTHER INFORMATION ABOUT OUR DIRECTORS, MANAGEMENT, STAFF AND SUBSTANTIAL SHAREHOLDERS

A. Substantial Shareholders

So far as the Directors are aware, immediately following the completion of the Global Offering, the following persons will have interests or short positions in our Shares or 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, 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 general meetings of any member of our Bank:

Substantial shareholders' interests or short positions 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	Number of Shares directly or indirectly held	Approximate % of interest in our Bank	Approximate % of the relevant class of Shares of our Bank	Number of Shares directly or indirectly held	Approximate % of interest in our Bank	Approximate % of the relevant class of Shares of our Bank
Shenyang Hengxin	Beneficial owner	Domestic Shares	479,853,940	8.50%	11.24%	479,832,029	8.23%	11.28%
Shenyang Industrial Investment Development Group Co., Ltd. (瀋陽產業投資發展集團有限公司)	Interest of a controlled corporation	Domestic[1] Shares	479,853,940	8.50%	11.24%	479,832,029	8.23%	11.28%
Huibao International	Beneficial owner	Domestic Shares	400,000,000	7.08%	9.37%	400,000,000	6.86%	9.41%
Beijing Jiutai Group Co., Ltd. (北京九台集團有限公司)	Interest of a controlled corporation	Domestic[2] Shares	400,000,000	7.08%	9.37%	400,000,000	6.86%	9.41%
Li Yuguo (李玉國)	Interest of a controlled corporation	Domestic[2] Shares	400,000,000	7.08%	9.37%	400,000,000	6.86%	9.41%
Xinhu Zhongbao	Beneficial owner	Domestic Shares	300,000,000	5.31%	7.02%	300,000,000	5.14%	7.06%
Zhejiang Xinhu Group Co., Ltd. (浙江新湖集團股份有限公司)	Interest of a controlled corporation	Domestic[3] Shares	300,000,000	5.31%	7.02%	300,000,000	5.14%	7.06%
Huang Wei (黃偉)	Interest of a controlled corporation	Domestic[3] Shares	300,000,000	5.31%	7.02%	300,000,000	5.14%	7.06%

Name of Shareholder	Nature of Interest	Class	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)		
			Number of Shares directly or indirectly held	Approximate % of interest in our Bank	Approximate % of the relevant class of Shares of our Bank	Number of Shares directly or indirectly held	Approximate % of interest in our Bank	Approximate % of the relevant class of Shares of our Bank
Founder Securities	Beneficial owner	Domestic Shares	300,000,000	5.31%	7.02%	300,000,000	5.14%	7.06%
Peking University Founder Group Co., Ltd. (北大方正集團有限公司)	Interest of a controlled corporation	Domestic[(4)] Shares	300,000,000	5.31%	7.02%	300,000,000	5.14%	7.06%
Peking University Asset Management Company Limited (北大資產經營有限公司)	Interest of a controlled corporation	Domestic[(4)] Shares	300,000,000	5.31%	7.02%	300,000,000	5.14%	7.06%
Beijing Zhaotai	Beneficial owner	Domestic Shares	300,000,000	5.31%	7.02%	300,000,000	5.14%	7.06%
Beijing Zhaotai Holding Co., Ltd. (北京兆泰控股有限公司)	Interest of a controlled corporation	Domestic[(5)] Shares	300,000,000	5.31%	7.02%	300,000,000	5.14%	7.06%
Mu Qiru (穆麒茹)	Interest of a controlled corporation	Domestic[(5)] Shares	300,000,000	5.31%	7.02%	300,000,000	5.14%	7.06%
Zhongyou Tianbao	Beneficial owner	Domestic Shares	230,000,000	4.07%	5.39%	230,000,000	3.94%	5.41%
Liu Xinfa (劉新發)	Interest of a controlled corporation	Domestic[(6)] Shares	230,000,000	4.07%	5.39%	230,000,000	3.94%	5.41%

Notes:

(1) Shenyang Hengxin is wholly owned by Shenyang Industrial Investment Development Group Co., Ltd. (瀋陽產業投資發展集團有限公司). By virtue of the SFO, Shenyang Industrial Investment Development Group Co., Ltd. is deemed to be interested in the Shares held by Shenyang Hengxin.

(2) Huibao International is wholly owned by Beijing Jiutai Group Co., Ltd. (北京九台集團有限公司), which is in turn owned as to 70% by Li Yuguo (李玉國). By virtue of the SFO, each of Beijing Jiutai Group Co., Ltd. and Li Yuguo is deemed to be interested in the Shares held by Huibao International.

(3) Xinhu Zhongbao is owned, directly and indirectly, as to approximately 47.39% by Zhejiang Xinhu Group Co., Ltd. (浙江新湖集團股份有限公司) and is ultimately controlled by Huang Wei (黃偉). By virtue of the SFO, each of Zhejiang Xinhu Group Co., Ltd. and Huang Wei is deemed to be interested in the Shares held by Xinhu Zhongbao.

(4) Founder Securities is owned as to approximately 30.55% by Peking University Founder Group Co., Ltd. (北大方正集團有限公司), which is in turn owned as to approximately 70% by Peking University Asset Management Company Limited (北大資產經營有限公司). By virtue of the SFO, each of Peking University Founder Group Co., Ltd. and Peking University Asset Management Company Limited is deemed to be interested in the Shares held by Founder Securities.

(5) Beijing Zhaotai is owned as to approximately 41.60% and 38.50% by Mu Qiru (穆麒茹) and Beijing Zhaotai Holding Co., Ltd. (北京兆泰控股有限公司), which is in turn owned as to 70% by Mu Qiru (穆麒茹). By virtue of the SFO, each of Beijing Zhaotai Holding Co., Ltd. and Mu Qiru is deemed to be interested in the Shares held by Beijing Zhaotai.

(6) Zhongyou Tianbao is controlled by Liu Xinfa (劉新發). By virtue of the SFO, Liu Xinfa is deemed to be interested in the Shares held by Zhongyou Tianbao.

Interests of substantial shareholders in our member companies (excluding the Bank)

Our subsidiaries	Total registered capital (RMB)	Parties with 10% or above shareholdings	Percentage of substantial shareholder's interest
Shenyang Shenbei Fumin Village Bank Co., Ltd. (瀋陽瀋北富民村鎮銀行)	150,000,000	Shenyang High-tech Venture Investment Co., Ltd. (瀋陽高新創業投資有限公司)	10%
		Shenyang Shenbei Xingchuang Investment Co., Ltd. (瀋陽瀋北興創投資有限公司)	10%
		Shenyang Xinyou Communications Co., Ltd. (瀋陽新郵通信有限公司)	10%
		Shenyang Longji Logistics Development Co., Ltd. (瀋陽龍吉物流發展有限公司)	10%
		Shenyang Kaicheng Housing Development Co., Ltd. (瀋陽凱城房屋開發有限公司)	10%
		Shanghai Chenyu Investment Co., Ltd. (上海晨鈺投資有限公司)	10%
Shenyang Xinmin Fumin Village Bank Co., Ltd. (瀋陽新民富民村鎮銀行)	30,000,000	Shenyang Future Realty & Property Development Co., Ltd. (瀋陽未來置業房產開發有限公司)	10%
		Xinmin City State-owned Assets Operation Co., Ltd. (新民市國有資產經營有限責任公司)	10%
		Shenyang Oriental Art Museum (瀋陽東方美術館)	10%
		Shenyang Baochen Trading Co., Ltd. (瀋陽寶辰商貿有限公司)	10%
		Shenyang Xuxingjin Investment Guarantee Co., Ltd. (瀋陽旭興進投資擔保有限公司)	10%

Our subsidiaries	Total registered capital (RMB)	Parties with 10% or above shareholdings	Percentage of substantial shareholder's interest
Shenyang Faku Fumin Village Bank Co., Ltd. (瀋陽法庫富民村鎮銀行)	30,000,000	Faku County Assets Operation Company (法庫縣資產經營有限公司)	10%
		Shenyang Jiashi Realty & Development Co., Ltd. (瀋陽嘉實置業發展有限公司)	10%
		Shenyang Hunnan Realty & Development Co., Ltd. (瀋陽渾南置業發展有限公司)	10%
		Shenyang Yutian Experimental High School (瀋陽市雨田實驗中學)	10%
		Liaoning Aiger Investment Co., Ltd. (遼寧艾格爾投資有限公司)	10%
		Shenyang AoDe Culture Media Co., Ltd. (瀋陽奧德文化傳播有限公司)	10%
Shenyang Liaozhong Fumin Village Bank Co., Ltd. (瀋陽遼中富民村鎮銀行)	30,000,000	Shenyang Xiangrun Economic & Trade Co., Ltd. (瀋陽祥潤經貿有限公司)	10%
		Dalian Free Trade Zone Huangting PetroChemical Trading Co., Ltd. (大連保稅區皇廷石化貿易有限公司)	10%
		Shenyang Seashore Zhongqiang Investment Co., Ltd. (瀋陽近海中強投資有限公司)	10%
		Shenyang International Logistics Development Co., Ltd. (瀋陽市國際物流發展有限公司)	10%

Our subsidiaries	Total registered capital (RMB)	Parties with 10% or above shareholdings	Percentage of substantial shareholder's interest
Ningbo Jiangbei Fumin Rural Bank Co., Ltd. (寧波江北富民村鎮銀行)	100,000,000	Shanghai Kaixin Construction Engineering Co., Ltd. (上海凱鑫建設工程有限公司)	10%
		Ningbo Xinya Construction Co., Ltd. (寧波新亞建設有限公司)	10%
		Zhejiang Jihui Industrial Co., Ltd. (浙江集匯實業有限公司)	10%
		Zhejiang Zhetian Communications Engineering Co., Ltd. (浙江浙天通信工程有限公司)	10%
		Ningbo Jintian Cooper (Group) Co., Ltd. (寧波金田銅業(集團)股份有限公司)	10%
Shanghai Baoshan Fumin Rural Bank Co., Ltd. (上海寶山富民村鎮銀行)	150,000,000	Shenyang Future Realty & Property Development Co., Ltd. (瀋陽未來置業房產開發有限公司)	10%
		Shanghai Changxin Group Co., Ltd. (上海昌鑫(集團)有限公司)	10%
		Shanghai Jinrui Construction Group Co., Ltd. (上海金瑞建設集團有限公司)	10%

B. Disclosure of the Directors' and Supervisors' interests in the issued share capital of our Bank 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, 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.

Directors

Name of Director	Nature of Interest	Class	Number of Shares	Approximate percentage of interest in our Bank
Wang Chunsheng	Beneficial owner	Domestic Shares	6,500	0.0001%
Zhao Guangwei	Beneficial owner	Domestic Shares	84,423	0.0015%
Wu Gang	Beneficial owner	Domestic Shares	146,149	0.0026%
Liu Xinfa	Interest of a controlled corporation	Domestic Shares	230,000,000	4.0737%
Li Yuguo	Interest of a controlled corporation	Domestic Shares	400,000,000	7.0847%

Supervisors

Name of Supervisor	Nature of Interest	Class	Number of Shares	Approximate percentage of interest in our Bank
Chen Zhaogui	Interest of a controlled corporation	Domestic Shares	200,000,000	3.5423%
Yang Lin	Beneficial owner	Domestic Shares	36,274	0.0006%
Han Xuefeng	Beneficial owner	Domestic Shares	15,681	0.0003%
Shi Yang	Beneficial owner	Domestic Shares	107,684	0.0019%
	Interest of spouse	Domestic Shares	5,722	0.0001%

C. Particulars of Service Contracts

Pursuant to Rules 19A.54 and 19A.55 of the Listing Rules, we have entered into a contract with each of our Directors and Supervisors in respect of, among other things, compliance with relevant laws and regulations, observation of the Articles of Association and provisions on arbitration. Save as disclosed above, we have not entered, and do not propose to enter, into any service contracts with any of our Directors or Supervisors in their respective capacities as Directors/Supervisors (other than contracts expiring or determinable by the employer within one year without payment of any compensation (other than statutory compensation)).

D. Directors' and Supervisors' Remuneration

The aggregate remuneration (including salaries, bonus, social security plans, housing fund and other allowances, benefits in kind and discretionary bonus) paid by our Bank to our Directors and Supervisors for the year ended December 31, 2013 was RMB22.36 million.

Pursuant to the currently effective arrangements, for the year ending December 31, 2014, it is estimated that the aggregate remuneration and benefits in kind to be received by the Directors and Supervisors would be approximately RMB23.11 million.

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 us.

F. Agency Fees or Commissions Paid or Payable

Save as disclosed in this prospectus, none of the Directors or any of the persons whose names are listed in the paragraph headed "5E" in Appendix VII to this prospectus had received any commissions, discounts, agency fees, brokerages or other special terms from us in connection with the issuance or sale of any capital of our Bank within the two years preceding the date of this prospectus.

G. Disclaimers

Save as disclosed in this prospectus:

(a) none of the Directors, Supervisors or any party listed under paragraph 5E of this Appendix 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 us, or are proposed to be acquired or disposed of by or leased to our Bank;

   (ii) materially interested in any contract or arrangement subsisting as at 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 paragraph 5E of this Appendix:

   (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) none of our Directors or Supervisors or their close associates or any shareholders of our Bank who, to the knowledge of the Directors, owns more than 5% of our issued share capital has any interest in our top five depositors and borrowers during the Track Record Period; and

(d) none of our Directors or Supervisors is a director or employee of a company which has an interest in the share capital of our Bank that has to be disclosed pursuant to Divisions 2 and 3 of Part XV of the SFO after the listing of H Shares on the Hong Kong Stock Exchange.

5. 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 the subsection entitled "Legal and Regulatory" under the section entitled "Business" of this prospectus, our Bank is not involved in any litigation, arbitration or administrative proceedings of material importance and, so far as we are aware, no litigation, arbitration or administrative proceedings of material importance is pending or threatened against us as of the Latest Practicable Date.

C. Sponsor

The Sole Sponsor has made an application on our behalf to the Listing Committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in, our H Shares. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

The Sole Sponsor satisfies the independence criteria set out in Rule 3A.07 of the Listing Rules.

The Sole Sponsor will charge a total amount of HK$7 million as the Sponsor's fee.

D. Preliminary Expenses

Our preliminary expenses are estimated to be approximately RMB1.39 million and are payable by us.

E. Qualification of Experts

The qualifications of the experts (as defined under the Listing Rules and the Companies Ordinance) who have given opinions or advice in this prospectus are as follows:

Name	Qualification
China Merchants Securities (HK) Co., Limited	a licensed corporation to conduct type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance), type 7 (providing automated trading services) and type 9 (asset management) regulated activities under the SFO
KPMG	Certified public accountants
Tian Yuan Law Firm	Licensed legal advisors on 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 of our Bank since June 30, 2014.

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, we have 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;

(b) no share or loan capital of our Bank is under option or is agreed conditionally or unconditionally to be put under option;

(c) we have not issued nor agreed to issue any founder shares, management shares or deferred shares;

(d) none of our equity and debt securities is listed or dealt with on any other stock exchange nor is any listing or permission to deal being or proposed to be sought;

(e) there are no arrangements under which future dividends are waived or agreed to be waived;

(f) there are no procedures for the exercise of any right of pre-emption or transferability of subscription rights;

(g) there are no contracts for hire or hire purchase of 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 outside Hong Kong;

(j) we have no outstanding convertible debt securities; and

(k) we currently do not intend to apply for the status of a Sino-foreign investment joint stock limited company and do not expect to be subject to the Sino-foreign Joint Venture Law of the PRC.

I. Consents

China Merchants Securities (HK) Co., Limited, as the Sole Sponsor; KPMG, as our reporting accountants; and Tian Yuan Law Firm, as our legal advisor on PRC law, have given and have not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports, letters, and/or opinions (as the case may be) and/or the references to their names included herein in the form and context in which they are respectively included.

None of the experts named above has any shareholding interests in any member of our Bank or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Bank.

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

The promoters of our Bank comprised 130 corporate shareholders and 3,502 individual shareholders of the former 33 urban credit cooperatives and 16 new corporate shareholders (including Shenyang Finance Bureau). Please see the section entitled "Our History and Operational Reform".

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 above in connection with the Global Offering or the transactions described in this prospectus.

L. Particulars of the Selling Shareholders

- Shenyang Hengxin State-Owned Asset Management Group Company Limited, located at No. 49, Renao Road, Shenhe District, Shenyang. Its principal business is asset management, capital operations and industrial investments.

- Shenyang Hengxin Investment Management Company Limited, located at No. 34, Wencui Road, Shenhe District, Shenyang. Its principal business is industrial investments, capital operations and general commodity trade.

- Shenyang Wuai Industry Company Limited, located at No. 65, Fengyutan Street, Shenhe District, Shenyang. Its principal business is general domestic business trade and economic information consultation.

- Jiangsu Yueda Group Company Limited, located at No. 2 Shiji Dadao East Road, Yancheng City, Jiangsu Province. Its principal business is to invest on the highway infrastructure operations, the agricultural machinery manufacture industry, the real estate industry; financial consultation service; technology consultation service; technology consultation and domestic trade.

- Shenyang Yuhong District State-Owned Assets Management Company, located at No. 37, Huanghai Road, Yuhong District, Shenyang. Its principal business is state-owned assets management.

- PICC Investment Holding Company Limited, located at No. 6, Wudinghou Street, Xicheng District, Beijing. Its principal business is investment on real estates, assets operation and management.

- Shenyang Nanhu Science and Technology Development Group Corporation, located at Room 419, Building Qun, Torch Innovation Park, No. 15, Shiji Road, Hunnanxin District, Shenyang. Its principal business is house lease, public facilities services, lands developments and arrangements, development and manufacture of hi-tech products.

- Liaoning Province Exhibition & Trade Group Company Limited, located at No. 38, Caita Street, Heping District, Shenyang. Its principal business is state-owned asset operation, domestic and foreign exhibitions undertakings, rubber products wholesale and retail, house lease and economical information consultation service.

- Shenyang Thermal Power Development Company Limited, located at No. 2A, Nujiang North Street, Yuhong District, Shenyang. Its principal business is development of city infrastructures, public utilities and relating industries and equity investment.

- Shenyang Research Institute of Petroleum and Petrochemicals, located at No. 7, Alley 10, Dongling Road, Shenhe District, Shenyang. Its principal business is research and development of new chemical products, new chemical technology consultation service and achievements transfer.

- Shenyang Oil Chemical Factory, located at Room 318, No. 36, Huahai Road, Economic and Technological Development Zone, Shenyang. Its principal business is handling its internal affairs.

- Shenyang International Science and Technology Development Company, located at No. 30-1, Huahai Road, Economic and Technological Development Zone, Shenyang. Its principal business is import and export business of all kinds of goods and technology.

- Shenyang Hi-tech Startup Center, located at No. 94, Heping North Street, Heping District, Shenyang. Its principal business is to provide capitals, human resource development, guidance management and other services for high and new technology industry at stage of entrepreneurship.

- Shenyang Grain, Oil Food Science Research Institute, located at No. 20, North Erzhong Road, Tiexi District, Shenyang. Its principal business is scientific research on grain and oil storage and transportation, process, and comprehensive utilizations of byproducts.

- Shenyang Agricultural Science and Technology Development Institute, located at No. 5, Jinjia Street, Maguanqiao, Shenhe District, Shenyang. Its principal business is to guide the industry development in the Agricultural High and New Technology Zone and coordinate its science and technology attracting investments, international science and technology communications and industrial demonstrations.

- Shenyang Huanggu District Santaizi Road Sub-district Office Economic Development Service Center, located at No. 26, Qiangweihe Street, Huanggu District, Shenyang. Its principal business is to provide service to sub-district owned enterprises and manage sub-district owned enterprises.

- Shenyang Heping District Shengli Kindergarten, located at No. 163, Tianjin South Street, Heping District, Shenyang. Its principal business is preschool education.

- Shenyang Shenhe District Xiaonan Road City Construction Management Authority, located at No. 22, Hanlin Road, Shenhe District, Shenyang. Its principal business is maintain, manage and supervise the community environmental sanitation facilities; maintain and manage the community municipal facilities.

- Shenyang Shenhe District Danan Road Sub-district Office Center, located at No. 47-2, Nanguan Road, Shenhe District, Shenyang. It is a local government agency.

- Shenyang Science and Technology Risk Investment Company Limited, located at Room 2515, No. 5A 90, Sanhao Street, Heping District, Shenyang. Its principal business is to finance the high and new technology industry and technical consultation service.

- Shenyang Shichuang Water Project Group Company Limited, located at No. 182A, Nanjiang South Street, Heping District, Shenyang. Its principal business is water source construction projects, sewage settlement projects, road projects, fire facilities projects, city and road lighting engineering constructions.

- Liaoning Finance Training College, located at No. 38, Hushitai South Street, Shenbeixin District, Shenyang. Its principal business is to cultivate high-educated technology application talents.

- Shenyang Shengong Career Development Center, located at No. 30, Beisima Road, Heping District, Shenyang. Its principal business is to assist Shenyang Federation of Trade Union to manage the operation activities of the Trade Union owned enterprises and public institutions, manage the operational assets of the Shenyang Federation of Trade Union, involve in drafting of the mid-term and long-term development plans for the enterprises and public institutions owned by the Trade Union and implement the plans.

- Shenyang Science and Technology Venture Capital Development Center, located at 16th Floor, Xinji Torch Building, No. 262A, Shifu Road, Shenhe District, Shenyang. Its principal business is to collect and manage the science and technology risk special funds.

- Shenyang Branch of Chinese Academy of Sciences, located at No. 24, Sanhao District, Heping District, Shenyang. Its principal business is to provide related service for the academy owned organizations, promote the development of science and technology business.

- Shenyang Huanggu District Liaohe Road Sub-district Office Economic Development Service Center, located at No. 54, Ningshan East Road, Huanggu District, Shenyang. Its principal business is to provide services to sub-district owned enterprises and manage of sub-district owned enterprises.

- Shenyang Heping District Jixian Road Sub-district Office, located at No. 60-1, Heping South Street, Heping District, Shenyang. It is a local government agency.

- Shenyang Heping District Nanshichang Road Sub-district Office, located at No. 8-1, South Wujing Street, Heping District, Shenyang. It is a local government agency.

- Shenyang Heping District Bajing Road Sub-district Office, located at No. 18, North Sijing Street, Heping District, Shenyang. It is a local government agency.

- Shenyang Shenhe District Binhe Road Sub-district Office, located at No. 86-1, Jinjuesi Street, Shenhe District, Shenyang. It is a local government agency.

- Shenyang Shenhe District Danan Road Sub-district Office, located at No. 229-3, Danan Street, Shenhe District, Shenyang. It is a local government agency.

- Shenyang Tiexi District Dugong Road Sub-district Office, located at No. 13-3, Jingxing North Street, Tiexi District, Shenyang. It is a local government agency.

- Shenyang Shenhe District Beizhan Road Sub-district Office, located at No. 34, Huigong East One Street, Shenhe District, Shenyang. It is a local government agency.

- Shenyang Heping District Maluwan Road Sub-district Office, located at No. 5, Siping Street, Heping District, Shenyang. It is a local government agency.

- Shenyang Industrial Products Trading Center, located at No. 1, Zhuangyeli, Huigong Street, Shenhe District, Shenyang. Its principal business is general merchandise, daily commodity, knitwear, hardware and electrical equipment, goods transport and grounds lease.

- Shenyang Shenhe District Yangguang Kindergarten, located at No. 16, Yangguang Department, Nanshuncheng Road, Shenhe District, Shenyang. Its principal business is preschool education.

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

(a) copies of the Application Forms;

(b) the written consents referred to in the paragraph entitled "5I" in Appendix VII to this prospectus;

(c) copies of each of the material contracts referred to in the paragraph entitled "3A" in Appendix VII to this prospectus; and

(d) the statement of particulars of the Selling Shareholders.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Sullivan & Cromwell at 28th Floor, Nine Queen's Road Central, 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 the prospectus:

(a) our Articles of Association;

(b) the accountants' report from KPMG in respect of the historical financial information for each of the three years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, the text of which is set forth in Appendix I to this prospectus;

(c) the unaudited supplementary financial information of our Bank, the text of which is set forth in Appendix II to this prospectus;

(d) the report from KPMG in respect of the unaudited pro forma financial information of our Bank, the text of which is set forth in Appendix III to this prospectus;

(e) the material contracts referred to in the paragraph entitled "3A" in Appendix VII to this prospectus;

(f) the written consents referred to in the paragraph entitled "5I" in Appendix VII to this prospectus;

(g) the service contracts referred to in the paragraph entitled "4C" in Appendix VII to this prospectus;

(h) the legal opinions issued by Tian Yuan Law Firm, our legal advisors as to PRC law, in respect of the general matters and property interests of our Bank;

(i) copies of the following PRC law, 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 (April 22, 1993);

(vi) the PRC Arbitration Law;

(vii) the PRC Civil Procedure Law; and

(viii) the PRC Commercial Banking Law.

盛京銀行
SHENGJING BANK