

INDUSTRY OVERVIEW

This section contains information regarding the Group’s industry. The Bank has derived certain information from data prepared in accordance with IFRS. The Bank has also obtained information from official or publicly available sources derived from data prepared in accordance with PRC GAAP or other accounting standards that may differ significantly from IFRS. Information from official and publicly available sources may not be consistent with information compiled by other third parties.

The Bank has not been able to obtain reliable, official or publicly available information on the Bank’s ranking and market share among all financial institutions in Jilin province in terms of total assets, total deposits and total loans.

The Bank believes that the sources of this information are appropriate and have taken reasonable care in extracting and reproducing this information. Although the Bank does not believe that this information is false or misleading, neither the Bank, the Selling Shareholders, the Sole Sponsor, the Underwriters nor any other party involved in the Global Offering have verified such information or made any representation as to its accuracy. Accordingly, you should not unduly rely upon such information. As of the Latest Practicable Date, the Bank’s directors confirm that, after taking reasonable care, there has been no material adverse change in the market information presented in this section.

OVERVIEW

China’s Economy

China has experienced rapid economic growth since adopting the “reform and opening” policy in the late 1970s and it became the world’s second largest economy in 2010. According to the NBSC, China’s GDP grew at a CAGR of 10.6% from 2010 to 2015. National resident disposable income per capita in China grew at a CAGR of 16.9%, from RMB10,046 to RMB21,966, over the same period.

The table below sets forth China’s GDP, per capita GDP, national resident disposable income per capita, and the corresponding CAGR for the years indicated:

	For the year ended December 31,						CAGR
	2010	2011	2012	2013	2014	2015	2010-2015
GDP (in billions of RMB)	40,890	48,412	53,412	58,802	63,614	67,671	10.6%
Per capita GDP (in RMB)	30,567	36,018	39,544	43,320	46,629	49,351	10.1%
National resident disposable income per capita (in RMB)	10,046	14,551	16,510	18,311	20,167	21,966	16.9%

Source: NBSC

China’s economy has now entered a new normal where GDP growth will be slower as it transitions from pursuing high GDP growth to optimizing its economic structure. Since November 2015, the Chinese government has been implementing supply-side structural reforms focusing on cultivating new driving forces for China’s economic growth, such as consumption upgrading and urbanization. China’s banking industry to continue to benefit from the growth opportunities from the urbanization and development of China’s County Areas. In addition, the PRC government has adopted the “Belt and Road Initiative” policy, which includes the establishment of an economic belt beginning in Western China and spreading through Central Asia towards Europe, and a “Maritime Silk Road” beginning in coastal China and stretching across regions with growing trade volumes, such as the South China Sea and East Africa.

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Jilin Province's Economy

Jilin province is located in Northeast China and is one of China's most important agricultural bases. Jilin province has a developed industrial economy represented by established automobile manufacturing and petrochemical industries, and emerging pharmaceutical and electronic information industries. Jilin province's economy has grown rapidly due to PRC government policies for the revitalization of old industrial bases in Northeast China. In February 2016, the Changchun New District (長春新區), a national new district, was formed to further facilitate Jilin province's economic development and the revitalization of Northeast China.

According to the NBSC and other statistical data, the GDP of Jilin increased from RMB858 billion to RMB1,427 billion from 2010 to 2015, representing a CAGR of 10.7%, outpacing the GDP growth of China and Northeast China. In 2015, fixed asset investments in Jilin amounted to RMB1,270 billion, representing an increase of 12.0% from 2014. Jilin's Thirteenth Five-Year Period (2016-2020) Economic and Social Development Plan, published by the Jilin government on March 24, 2016, aims to double the rural and urban resident disposable income and GDP by 2020 as compared with the 2010 levels. The Jilin government also plans to accelerate industrial restructuring and innovation and promote the balanced development of rural and urban areas through rural urbanization and agricultural modernization. In addition, the Jilin government aims to develop Jilin province into a regional financial services center in northeast Asia and reform the rural financial system in Jilin province.

The table below sets forth Jilin province's GDP, per capita GDP, urban resident disposable income per capita, rural resident disposable income per capita, fixed asset investment, total import and export value and the corresponding CAGR for the years indicated.

	For the year ended December 31,						CAGR
	2010	2011	2012	2013	2014	2015	2010-2015
GDP (in billions of RMB)	858	1,053	1,194	1,298	1,380	1,427	10.7%
Per capita GDP (in RMB)	31,306	38,321	43,412	47,191	50,162	51,852	10.6%
Urban resident disposable income per capita (in RMB)	15,412	17,797	20,208	22,275	23,218	24,901	10.1%
Rural resident disposable income per capita (in RMB)	6,237	7,510	8,598	9,621	10,780	11,326	12.7%
Fixed asset investment ⁽¹⁾ (in billions of RMB)	571	744	971	1,013	1,149	1,270	17.3%
Total import and export value (in billions of U.S. dollar)	17	22	25	26	26	19	2.2%

Source: Jilin Province Bureau of Statistics

Note:

(1) Since 2010, the minimum statistical standard for fixed asset investment has been increased from RMB500,000 to RMB5 million. Therefore, the fixed asset investment in 2010 is calculated according to the 2011 Statistical Reports on Jilin Domestic Economy and Social Development (2011年吉林省國民經濟和社會發展統計公報).

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CHINA'S BANKING INDUSTRY

Overview

China's banking industry has grown steadily in recent years, driven primarily by China's strong macroeconomic growth. The table below sets forth the aggregate amounts and CAGR of RMB-denominated and foreign-currency-denominated loans and deposits of China's banking institutions as of the dates indicated.

	As of December 31,						CAGR
	2010	2011	2012	2013	2014	2015	2010-2015
RMB-denominated bank loans (in billions of RMB)	47,920	54,795	62,991	71,896	81,677	93,954	14.4%
RMB-denominated bank deposits (in billions of RMB)	71,823	80,937	91,755	104,385	113,864	135,702	13.6%
Foreign-currency-denominated bank loans (in billions of U.S. dollar)	453	539	684	777	835	830	12.9%
Foreign-currency-denominated bank deposits (in billions of U.S. dollar)	229	275	406	439	573	627	22.4%

Source: PBOC, NBSC

The table below sets forth certain information of financial institutions in the banking industry of China as of the dates or for the years indicated:

	As of or for the year ended December 31,					
	2010	2011	2012	2013	2014	2015
Assets (in billions of RMB)	95,305	113,287	133,622	151,355	172,336	199,345
Liabilities (in billions of RMB)	89,473	106,078	124,952	141,183	160,022	184,140
Shareholders' equity (in billions of RMB)	5,832	7,209	8,671	10,172	12,313	15,205
Profit after tax (in billions of RMB)	899	1,252	1,512	1,744	1,928	1,974
Non-performing loan ratio (%) ⁽¹⁾	1.1	1.0	1.0	1.0	1.2	1.7

Source: CBRC

Note:

(1) Represents the non-performing loan ratio of commercial banks instead of the overall non-performing loan ratio of all financial institutions in the banking industry.

Competitive Landscape

PRC banking institutions consist primarily of the five largest commercial banks, national joint-stock commercial banks, city commercial banks, rural financial institutions, foreign banking institutions and other financial institutions. The table below sets forth information regarding banking institutions by type as of the dates or for the years indicated.

	As of or for the year ended December 31, 2015						
	Number	Total assets	Market share	Shareholders' equity	Market share	Profit after tax	Market share
		(in billions of RMB, except number of institutions and percentages)					
The five largest commercial banks ⁽¹⁾	5	78,163	39.2%	6,123	40.3%	893	45.2%
National joint-stock commercial banks	12	36,988	18.6%	2,321	15.3%	337	17.1%
City commercial banks	133	22,680	11.4%	1,548	10.2%	199	10.1%
Rural financial institutions ⁽²⁾	2,303	24,651	12.4%	1,783	11.7%	223	11.3%
Foreign banking institutions ⁽³⁾	40	2,681	1.3%	351	2.3%	15	0.8%
Other banking institutions ⁽⁴⁾	1,768	34,182	17.1%	3,079	20.2%	307	15.5%
Total	4,261	199,345	100.0%	15,205	100.0%	1,974	100.0%

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Source: CBRC

Notes:

- (1) Include 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.
- (2) Include rural commercial banks, rural credit cooperatives and rural cooperative banks.
- (3) Include foreign bank branches, foreign-owned banks, Sino-foreign joint-venture banks and foreign-owned finance corporations and their subsidiaries and branches.
- (4) Include policy banks (include China Development Bank, the Export-Import Bank of China and Agricultural Development Bank), Postal Savings Bank of China, new-type rural financial institutions (include village and township banks, rural finance corporations and rural mutual cooperatives) and other non-banking institutions (include financial companies under corporate groups, consumer financial companies, trust companies, financial leasing companies, money brokerage firms, auto financing companies, Sino-German Bausparkasse and financial assets management companies). The data disclosed in this table does not include a newly opened privately owned bank and a newly established trust insurance funds company.

RURAL FINANCIAL INSTITUTIONS IN CHINA

Rural financial institutions in China consist primarily of rural commercial banks, rural credit cooperatives and rural cooperative banks. Since the end of 2006, CBRC has implemented policies and measures for the development of new types of rural financial institutions, including village and township banks, rural finance corporations and rural mutual cooperatives in China. Unlike large and nationwide commercial banks, rural financial institutions provide banking products and services, including retail savings, retail loans and payment settlement, mainly to SMEs and individuals located in County Areas in China. As of December 31, 2015, China had 859 rural commercial banks, 1,373 rural credit cooperatives, 71 rural cooperative banks, 1,311 village and township banks and 48 rural mutual cooperatives.

The table below sets forth certain information of rural commercial banks in China as of the dates or for the years indicated:

	As of or for the year ended December 31,					
	2010	2011	2012	2013	2014	2015
Assets (in billions of RMB)	2,767	4,253	6,275	8,522	11,527	15,234
Liabilities (in billions of RMB)	2,564	3,921	5,784	7,849	10,595	14,034
Shareholders' equity (in billions of RMB)	203	332	491	673	932	1,200
Profit after tax (in billions of RMB)	28	51	78	107	138	149

Source: CBRC

JILIN PROVINCE'S BANKING INDUSTRY

Overview

Economic reforms in Jilin province have led to steady growth in the region's banking industry. According to the Jilin Province Financial Operation Report issued by the Monetary Policy Analysis Group of Changchun Central Sub-branch of PBOC, as of December 31, 2015, the total assets of banking institutions in Jilin province increased from RMB1,313.0 billion as of December 31, 2010 to RMB2,740.4 billion as of December 31, 2015, representing a CAGR of 15.9%.

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The following table sets forth the aggregate amount and CAGR of RMB-denominated and foreign-currency-denominated loans and deposits of financial institutions in Jilin province as of the dates indicated.

	As of December 31,						CAGR
	2010	2011	2012	2013	2014	2015	2010 to 2015
RMB-denominated bank loans (in billions of RMB)	721	813	916	1,070	1,259	1,520	16.1%
RMB-denominated bank deposits (in billions of RMB)	961	1,087	1,271	1,478	1,640	1,850	14.0%
Foreign-currency-denominated bank loans (in billions of U.S. dollar)	1.11	1.82	1.83	1.78	1.77	1.63	8.0%
Foreign-currency-denominated bank deposits (in billions of U.S. dollar)	1.45	1.39	1.69	1.71	2.06	2.84	14.4%

Source: PBOC

Competitive Landscape

The table below sets forth information concerning banking institutions in Jilin province by type as of the dates or for the years indicated.

	As of or for the year ended December 31, 2015 ⁽¹⁾					
	Total assets	Market share	Shareholders' equity	Market share	Profit after tax	Market share
(in billions of RMB, except percentages)						
The five largest commercial banks	886.7	32.7%	8.6	10.0%	8.3	30.1%
National Joint-stock commercial banks ⁽²⁾	256.1	9.4%	5.5	6.4%	3.7	13.4%
City commercial banks ⁽³⁾	335.5	12.4%	20.1	23.4%	2.9	10.5%
Rural financial institutions ⁽⁴⁾	540.8	19.9%	34.8	40.6%	6.3	22.8%
Other financial institutions ⁽⁵⁾	696.3	25.6%	16.8	19.6%	6.4	23.2%
Total	2,715.4	100.0%	85.8	100.0%	27.6	100.0%

Source: CBRC Jilin Bureau

Notes:

- (1) Data in the above table does not include data on sub-branches of Jilin province's banking institutions outside the province.
- (2) Include China CITIC Bank, China Everbright Bank, Huaxia Bank, China Merchants Bank, Shanghai Pudong Development Bank, Industrial Bank and China Minsheng Bank.
- (3) Include Bank of Jilin and Shengjing Bank.
- (4) Include rural commercial banks, rural cooperative bank (there was only one rural cooperative bank in the province and it was restructured as a rural commercial bank in 2015), rural credit cooperatives, village and township banks, rural finance corporations and rural mutual cooperatives.
- (5) Include policy banks and national development banks (include China Development Bank, the Export-Import Bank of China and China Agricultural Development Bank), foreign-owned banks, other non-banking financial institutions (include trust and investment companies, finance companies affiliated with corporate enterprises and auto financing companies) and Postal Savings Bank of China.

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The table below sets forth certain information (on a consolidated or group basis) relating to the Group and the PRC rural commercial banks that were listed in Hong Kong or had filed IPO applications in China as of December 31, 2015.

	As of December 31, 2015		
	Total assets ⁽¹⁾	Total loans ⁽¹⁾	Total deposits ⁽¹⁾
(in billions of RMB)			
Chongqing Rural Commercial Bank	716.8	268.6	470.2
Jiutai Rural Commercial Bank	142.0	47.9	93.3
Wuxi Rural Commercial Bank	115.5	55.5	87.2
Changshu Rural Commercial Bank	108.5	55.8	82.3
Jiangyin Rural Commercial Bank	90.5	49.9	67.7
Rural Commercial Bank of Zhangjiagang	82.4	39.8	56.4
Wujiang Rural Commercial Bank	71.5	41.0	57.2
Total	1,327.2	558.5	914.3

Source: 2015 annual reports of the PRC rural commercial banks filed listing application in China or listed in Hong Kong, except for the Group's information

Note:

(1) Based on each bank's annual report for 2015.

INDUSTRY TRENDS

Interest Rate Liberalization

Interest rate liberalization is one of the core aspects of China's economic reforms. Historically, the PBOC has set interest rates for loans and deposits in China. In recent years, the PBOC has liberalized interest rates and promoted a market-oriented interest rate regime.

In July 2013, the PBOC removed the floor for loan interest rates. In October 2015, the PBOC also removed the ceiling on deposit interest rates for commercial banks and rural commercial banks. The Deposit Insurance Regulations (存款保險條例) came into effect on May 1, 2015, representing an important step towards the interest rate liberalization in China.

Although these measures may afford banking institutions greater flexibility in setting interest rates, the overall impact of interest rate liberalization remains uncertain. Interest rate liberalization could intensify competition among PRC banks, which could reduce their net interest margins and profitability.

Development of Diversified Financial Products and Services and Integrated Operation

In recent years, depositors have moved funds from banks to other financial intermediary institutions for use in direct investment, thereby reducing deposit levels and borrowing demand. Financial disintermediation has promoted transformation of the banking industry in China and commercial banks have introduced a more diversified portfolio of products and services. There will be new development opportunities for financing businesses that support financial markets and financial transactions such as interbank deposits, large corporate deposits, margin trading and securities lending and loans secured by pledged securities. Moreover, fee- and commission-based products and services are being developed rapidly. Commercial banks use their extensive customer networks to cooperate with other financial institutions, such as securities companies, financial leasing companies, insurance companies and trust companies, to sell financial products as agents on a commission basis.

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In addition, commercial banks have begun developing integrated business models in accordance with the CBRC regulations. They have acquired additional financial licenses by establishing insurance companies, securities companies, financial leasing companies and consumer finance companies and through acquisitions and organic growth. They take advantage of these diversified businesses to provide customers with loans and deposits, payment settlement, trust products and integrated financial service plans comprising investments in banking products, insurance and funds. It is expected that commercial banks in China will be allowed to provide even more diversified financial products and services in the future, such as securities brokerage, equity investment and asset management.

Improved Regulation and Supervision Scheme

PRC regulators have taken a number of measures to improve regulatory oversight of the banking industry. These measures include:

- *Enhanced supervision of capital adequacy.* In June 2012, CBRC promulgated the Capital Management Measures for Commercial Banks (商業銀行資本管理辦法), which require commercial banks to comply with Basel III capital adequacy requirements by the end of 2018 and phased-in targets during the transitional period.
- *Strengthened risk management.* In response to the international financial crisis, CBRC promulgated risk management guidelines for commercial banks, including loan risk classification, credit rating and credit review.
- *Increased regulation of credit business.* CBRC implemented regulations on the extension of credit to certain industries, such as real estate and local government financing vehicles, and products, such as wealth management products and interbank products.
- *Modern corporate governance.* CBRC encourages banking institutions to establish modern corporate governance structures, including a board of directors with independent directors, an audit committee, a compensation and nomination committee and other special committees, and a board of supervisors. In addition, CBRC requires banking institutions to maintain independent internal audit bodies.
- *Enhanced regulation of Internet finance.* According to China's Financial Stability Report (2014) issued by PBOC, PBOC will increase regulation of Internet finance to ensure its healthy development.

Increasing Role of Rural Financial Institutions in China

Since 2006, CBRC has implemented specific measures and regulations to facilitate the reform and development of rural financial institutions in China. These measures and regulations are intended to refine and simplify the conditions, standards and procedures for administrative approval for the establishment of rural financial institutions. They have also clarified the role of rural financial institutions in the economic development of rural areas. Additionally, private-sector capital investment, particularly by shareholders sharing similar operational strategies, in rural financial institutions is encouraged.

Favorable government policies have resulted in PRC rural financial institutions growing rapidly over the past few years. According to the CBRC statistics, there were a total of 2,303 rural financial institutions as of December 31, 2015. As of the same date, PRC rural financial institutions accounted

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for 12.4% of the total assets of financial institutions in the PRC banking industry. Rural financial institutions enjoy a number of competitive advantages over other financial institutions, such as their extensive local networks, local expertise and long-lasting relationships with local customers. These advantages position rural financial institutions to satisfy customer needs in a timely manner in response to market changes and to consolidate their customer bases and expand market shares.

Increasing Importance of Banking Services for SMEs

To facilitate the development of SMEs and help them meet their financing needs, the PBOC and the CBRC have taken measures to provide SMEs with increased access to financial products and services. These include the followings:

- *More convenient and higher-quality service.* Commercial banks are encouraged to provide SMEs with more convenient services by expanding their network coverage and broadening their product portfolios. They are also encouraged to improve service quality;
- *Lower reserve ratio.* To increase the liquidity of commercial banks and encourage the extension of credit to micro and small enterprises, effective from October 24, 2015, the PBOC lowered the RMB reserve ratio by an additional 0.5% for commercial banks that meet the requirement of prudent operation and increase loans to the “three rurals” or micro and small enterprises by specified percentage; and
- *Tailored products and maturity.* The CBRC encourages banking institutions to design loan products tailored to the needs of SMEs and adjust the maturity of such products to optimize the cash flows of SMEs.

As of December 31, 2015, total loans to SMEs were approximately RMB17.4 trillion, representing 31.2% of all corporate loans in the PRC and a year-on-year increase of 13.9%. According to the State Council’s Plan for Promoting the Development of Financial Inclusion (2016-2020) (推進普惠金融發展規劃 (2016—2020年)) published on December 31, 2015, the PRC government will continue to support the registration and issuance of SME bonds by commercial banks to increase SME financing sources. The government also plans to relax regulatory requirements for non-performing loans to SMEs. The Bank expects SME financial services to become an important part of China’s banking industry.

Increasing Demand for Retail Financial Services

Increased per capita income and lifestyle changes have led to increased demand from PRC customers for more diversified products and services, such as private banking services, consumption loans and wealth management services.

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The table below sets forth China’s urban household disposable income per capita, rural resident net income per capita, total RMB-denominated domestic deposits of urban and rural residents and total personal consumption loans, their percentages of all loans and corresponding CAGR as of the dates indicated or for the years indicated.

	As of or for the year ended December 31,						CAGR
	2010	2011	2012	2013	2014	2015	2010-2015
Urban household disposable income per capita (in RMB)	19,109	21,810	24,565	26,467	28,844	31,195	10.3%
Rural resident net income per capita (in RMB)	5,919	6,977	7,917	8,896	9,892	10,772	12.7%
Total amount of RMB-denominated domestic deposits of urban and rural residents (in billions of RMB)	30,330	34,364	39,955	44,760	48,526	55,193	12.7%
Total amount of personal consumption loans (in billions of RMB)	7,500	8,900	10,400	13,000	15,400	18,952	20.4%
Percentage as to the total amount of all loans	14.7%	15.3%	15.5%	17.0%	17.7%	19.1%	5.4%

Source: NBSC; CBRC

PRC commercial banks have begun providing customized products and services for a growing class of high-net-worth retail customers. As high-net-worth individuals’ investment approaches become more sophisticated, their investment and wealth management demands have become more diversified. Increased demand for retail financial services is expected to continue to drive the growth in the PRC banking industry for the foreseeable future.

Increasing Importance of Electronic Banking Service and Internet Finance

The development of IT and banking information systems has enabled commercial banks to devise new self-service products and services through electronic banking. These products include internet banking, mobile banking, telephone banking and WeChat banking. Commercial banks now seek to provide electronic banking customers convenient access through an integrated network of physical outlets and electronic channels.

Increased internet penetration in the PRC has also led to growing demand for internet finance. Internet finance products and services, such as third-party online payments, peer-to-peer (“P2P”) microfinance platforms, crowdfunding and non-traditional electronic currencies, have led to new challenges and competitive pressure for traditional banking institutions. For example, third-party online mobile payments have become a growing alternative to traditional payment methods. According to iResearch.cn, in 2015, the total amount of third-party online mobile payments was RMB11,867.5 billion, representing a year-on-year increase of 46.9%. In addition, P2P microfinance platforms could significantly reduce information asymmetry between financial institutions and customers and lower transaction costs.

Impact of the Development of China’s Capital Market

In recent years, China’s capital markets have undergone significant reforms, such as reforms related to asset-backed securities, corporate bonds and privately placed bonds, as well as the launch of the Shanghai-Hong Kong Stock Connect, Shenzhen—Hong Kong Stock Connect and the Mainland-Hong Kong Mutual Recognition of Funds. These developments could have an adverse impact on the

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core businesses of China's banks. For example, the expansion of China's debt capital markets may allow companies to borrow at lower costs by issuing bonds, which could affect the lending business of banks. At the same time, the development of China's capital market enables commercial banks to diversify their investment portfolios and broaden their product and service offerings. For example, commercial banks may offer customers additional financial products and services, including those related to investment banking, mutual funds, and other products with higher investment yields, such as asset-backed securities and interbank deposits. This could lead to an expansion of the fee- and commission-based businesses of commercial banks.