OVERVIEW

The banking industry in the PRC is highly regulated. The principal regulatory authorities in the PRC banking industry include CBRC and PBOC. CBRC is responsible for supervising and regulating banking institutions. 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, the PRC Banking Supervision and Regulatory Law, and the rules and regulations established thereunder.

PRINCIPAL REGULATORS

CBRC

Functions and Powers

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. 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 financial institutions. According to the PRC Banking Supervision and Regulatory Law and relevant regulations, 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 operation rules 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

CBRC, through its headquarter 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 the business premises and electronic data systems of banks, interviewing their employees, senior management and directors for an explanation of significant issues relating to operations and risk management, as well as reviewing relevant documents and data maintained by the banks. Off-site surveillance generally includes reviewing business reports, financial statements and other reports regularly submitted by the banks to CBRC.

If a banking institution is not in compliance with an applicable banking regulation, 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 dividend and other distribution, and transfer of assets, ordering the transfer of shares of the controlling shareholder(s) or the limitation of the rights of such shareholder(s), ordering restructuring of the board of directors or senior management or imposing restrictions on their rights, and withholding the approval for opening new branches. In extreme cases or when a commercial bank fails to take corrective action within the time period specified by CBRC, CBRC may order the banking institution to suspend operations and may revoke its business license. In the event of existing or potential credit crisis within a banking institution, which may materially impact the rights and interests of depositors and other customers, CBRC may take over, or procure the restructuring of such banking institution.

PBOC and Inter-departmental Coordination Joint Meeting for Financial Supervision

As the central bank of the PRC, 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, PBOC is empowered to perform the following primary duties:

- issuing and implementing orders and regulations in relation to its duties;
- formulating and implementing monetary policy in accordance with laws;
- issuing Renminbi and administering its circulation;
- supervising and regulating the interbank lending market and the interbank bond market;
- implementing foreign exchange controls and supervising and regulating the interbank foreign exchange market;
- supervising and regulating the gold market;
- holding, administering and managing the state foreign exchange reserve and gold reserve;
- managing the national treasury;
- safeguarding the normal operation of payment and clearing systems;
- formulating and coordinating anti-money laundering initiatives in the financial industry and taking responsibility for monitoring fund flow in respect of anti-money laundering;
- taking responsibility for the statistics, surveys, analyses and forecasts of the financial industry; and
- participating in international financial activities as the central bank of the PRC.

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), pursuant to which the PBOC was authorized to preside over the joint meeting, with CBRC, CSRC, CIRC and SAFE as the key members. Other government departments such as NDRC and MOF may be invited to attend the joint meetings, where necessary.

MOF

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

- promulgating 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 the management of state-owned financial assets; and
- supervising the implementation of financial and taxation 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 SAFE, SAIC, CSRC, CIRC, NAO, SAT and NDRC.

LICENSING REQUIREMENTS

Basic Requirements

The Commercial Banking Law sets forth the authorized business scope and the licensing and other requirements for commercial banks. Rural commercial banks, village and township banks and other rural small and medium financial institutions are also required to comply with the Measures for the Implementation of Administrative Licensing Matters Concerning Rural Small and Medium Financial Institutions (農村中小金融機構行政許可事項實施辦法) promulgated by CBRC which took effect on June 5, 2015.

The establishment of a rural commercial bank requires the approval and issuance of an operating license by CBRC or its local bureaus. In general, CBRC and its local bureaus will not approve an application to establish a Rural Commercial Bank unless certain conditions are satisfied, including, amongst others:

- the articles of association are in compliance with the relevant requirements of the PRC Company Law, the PRC Commercial Banking Law and CBRC;

- it shall be established in the form of a rural cooperative bank or rural credit cooperative;
- the registered capital is equal to its paid-up capital, and the minimum registered capital of a rural commercial bank is RMB50 million;
- the directors and senior management of the proposed commercial bank possess the requisite qualifications and the proposed commercial bank has qualified practitioners who are familiar with the banking business;
- the organizational structure and the management system are 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.

The establishment of a village and township bank shall be approved by the local office of CBRC through the issue of business license. In general, no approval will be granted by the local office of CBRC for the establishment of a village and township bank unless the following conditions are fulfilled, including but not limited to:

- its articles of association are in compliance with the PRC Company Law, the PRC Commercial Banking Law and CBRC;
- its promoters have the requisite qualification and at least one of them is a financial institution providing banking services;
- its registered capital is equal to its paid-up capital and the minimum registered capital of a village and township bank to be established at township level is RMB3 million or RMB1 million for a village and township bank to be established at village level;
- its directors and senior management possess the requisite qualifications and the proposed village and township banks has qualified practitioners who are familiar with the banking business;
- its organizational structure and management system are sound;
- it has a business strategy to support the development of "three rurals" and SMEs;
- its 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

Rural commercial banks are required to obtain approval from CBRC or its branches to undertake significant changes, including:

- change of the name;

- change of registered capital;
- change of domicile of headquarters or branches and sub-branches;
- change of business scope;
- change of form of organization;
- a purchaser holding 5% or more of the rural commercial bank's shares after purchasing shares of the rural commercial bank, and change of shareholders holding 5% or more of the rural commercial bank's total capital or shares;
- amendments to the articles of association;
- establishment or termination of branches and sub-branches;
- merger or division; and
- dissolution and liquidation.

Establishment of Branches

To establish a branch based on business needs, a rural commercial bank must apply to the relevant local office of CBRC for approval and issuance of a financial license and business license. The establishment of branches by a rural commercial bank must comply with various requirements of CBRC.

Acquisition of Domestic Banking Financial Institutions by Rural Commercial Banks

Acquisition of village and township banks

Pursuant to the Measures for the Implementation of Administrative Licensing Matters Concerning Rural Small and Medium Financial Institutions by CBRC (中國銀監會農村中小金融機構行政許可事項實施辦法), a rural commercial bank shall meet the following conditions when acquiring a village and township bank:

- a banking financial institution;
- having regulatory rating of Grade II or above in the prior year;
- having a sufficient reserve of qualified human resources;
- having sufficient consolidation management capability and information technology construction and management capability; and
- satisfying other prudential conditions as set out by CBRC.

Acquisition of rural commercial banks

Pursuant to the Measures for the Implementation of Administrative Licensing Matters Concerning Rural Small and Medium Financial Institutions by CBRC (中國銀監會農村中小金融機構行政許可事項實施辦法), a rural commercial bank shall meet the following conditions when acquiring a domestic banking financial institution other than village and township banks:

- having good corporate governance structure;
- having clear development strategies and a mature financial business model;

- possessing capability to make external investment and replenish capital on an ongoing basis;
- possessing solid consolidation management capability;
- having a good regulatory rating;
- profitable in the past three financial years consecutively;
- having equity investment balance of generally no more than 50% of net assets (on a consolidated basis);
- having adequate and effective risk management and internal controls, and capable of effectively identifying, monitoring, analyzing, and controlling external investment risks;
- having comprehensive and compliant information technology systems and information security system, and standardized data management system and technologies and measures to ensure the continuous, effective, and safe operation of business;
- having not committed any serious violations of laws and regulations nor been involved in any major cases caused by internal management issues in the past two years; and
- other prudential conditions set out by the CBRC.

The acquisition of domestic banking financial institutions by rural commercial banks shall meet various conditions set by the CBRC and shall be subject to the approval by the local bureaus of the CBRC.

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, payment agent and underwriter of government bonds;
- trading government bonds and financial bonds;
- engaging in interbank 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 CBRC or its branches for approval. Currently, subject to approval by SAFE or its relative branch, commercial banks may engage in settlement and sales of foreign exchange.

REGULATIONS ON PRINCIPAL COMMERCIAL BANKING ACTIVITIES

Lending

Pursuant to the laws governing the banking industry of the PRC, in order to control risks relating to the extension of credit, commercial banks are required 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 to conduct due diligence investigation for determination of credit limit, monitor repayment ability of the borrowers and issue credit evaluation report on a regular basis; and (iii) appoint qualified risk control personnel.

The CBRC and other relevant authorities have issued a number of regulations and rules concerning loans and granted credit to certain specific industries and customers in an effort to control the credit risks 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 the Bank and each subsidiary bank.

- according to the Interim Measures for the Administration of Fixed Asset Loans (固定資產貸款管理暫行辦法), commercial banks are required to improve their internal control system, manage the entire lending process and 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 loan 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 credit risks, and establish a loan quality monitoring system and a loan risk alert system;
- according to the Interim Measures for the Administration of Working Capital Loans (流動資金貸款管理暫行辦法), commercial banks are required to establish effective internal control mechanism and risk management system to monitor the use of working capital loans and obtain comprehensive information from clients. They are also required to reasonably and prudently estimate the actual capital demand of customers based on their business operations to determine credit limits without exceeding the customers' actual working capital need. In addition, commercial banks are required to clearly specify in the loan agreement the legal use of the working capital loan. Particularly, working capital loans cannot be used for fixed asset or equity investment, or for prohibited purposes;
- 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) require commercial banks to establish a risk management policies to control the credits granted to group borrowers and file these policies and procedures with the banking regulatory authorities. If the credit balance of a commercial bank to a single group borrower exceeds 15% of its net capital, the commercial bank is required to take remediation measures to diversify risks through syndicated loans, loan participation and loan transfer. In line with its prudential supervision requirement, the banking regulatory authorities may lower such credit balance ratio;

- the Interim Measures for the Administration of Personal Loans (個人貸款管理暫行辦法) require commercial banks to establish a set of effective end-to-end management framework and risk management system for personal loans and specify certain conditions for personal loan applications as well as relevant laws and policies regulating the use of personal loans. Commercial banks are required to specify in the loan agreement the use of personal loans, and are prohibited from extending personal loans without designated purpose;
- the Guidelines on Project Finance Business (項目融資業務指引) require banking institutions to establish a comprehensive operational process and risk management system. Banking institutions are required to fully identify and evaluate risks associated with the project construction phase and operation phase, 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 the assessment of the repayment ability of borrowers so that they can evaluate risks associated with technology and financial feasibility as well as sources for loan repayment. In addition, banking institutions must ensure that borrowers set up a designated account to receive all revenues from the financing projects, and must monitor such account and take actions in case of unusual movements;
- according to the Guiding Opinions of PBOC, CBRC, CSRC and CIRC on Further Supporting the Restructuring and Revitalization of Key Industries and Curbing Overcapacity in Certain Industries through Financial Services (中國人民銀行、銀監會、證監會、保監會關於進一步做好金融服務支持重點產業調整振興和抑制部分行業產能過剩的指導意見), 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 (綠色信貸指引) 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 warrant to support green credit, and to 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 management systems. Particularly, banking institutions are required to conduct due diligence investigation on the environmental and social risks of customers based on their profiles. No loan shall be extended to customer not satisfying with the relevant requirements on environmental and social performance. For

customers with material environmental and social risks, banking institutions shall also require their customers to submit environmental and social risks report and specify the terms for controlling such risks in the loan agreements. In addition, banking institutions shall implement specific post-loan management measures targeting the customers with potential material environmental and social risks and take appropriate risk mitigation measures timely, and report to the regulatory authorities in the event of any material environmental and social risk events;

- the Guidelines of Energy Efficiency Loans (能效信貸指引) encourage banking institutions to provide credit financing to energy consumption entities to support energy saving and emission reduction. According to the guidelines, banking institutions may extend credit to energy efficiency projects of energy consumption entities and energy performance contracting projects of energy-saving service companies. Banking institutions shall further improve the credit risk management for energy efficiency loans through various approaches, including (i) setting loan approval requirements for energy efficiency projects, energy consumption entities and energy-saving service companies; (ii) strengthening due diligence on energy efficiency credit extension by obtaining comprehensive information on borrowers for risk assessment; (iii) improving management of energy efficiency loan contracts and post-loan management; and (iv) establishing credit supervision and risk warning mechanisms; and

- 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) require commercial banks to establish criteria for the review and approval of real estate loans (including land reserve loans, real estate development loans, personal residential mortgage loans, and commercial mortgage loans) and to develop risk management and internal control systems to manage the market risk, legal risk, and operational risk in the real estate loan market. Commercial banks are not allowed to grant loans in any form to borrowers without land use right certificates and relevant permissions. CBRC and its branches conduct periodic inspections on the implementation of such guidelines;

- the Notice of the General Office of the State Council on Further Improvement in 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 extending loans to real estate developers which are engaged in illegal activities such as possessing idle land, land speculation, hoarding properties and driving up prices;

- the Notice of PBOC and CBRC on Issues concerning the Improvement of Differential Housing Credit Policies (中國人民銀行、中國銀監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 Certain Cities (國務院關於堅決遏制部分城市房價過快上漲的通知) in respect of housing loans. These regulations require all commercial banks not to grant housing loans to families who are purchasing the third or more residential property or to non-PRC residents who are unable to provide evidence of local tax payment or social security fund contribution of no less than one year. With respect to a first-time purchase of any commercial residential property, the minimum down payment ratio is set at 30%, whilst the minimum down payment for a second-time home buyer is 50% and the regulations state that the interest rate shall be no less than 1.1 times the PBOC loan benchmark interest rate.

- 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 shall be raised to no less than 60% for housing loans granted after the issuance of the Notice of the General Office of the State Council on Issues concerning Further Tightening the Regulation 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).
- the Notice of the PBOC and the CBRC on Issues concerning the Further Improvement of Housing Financial Services (中國人民銀行、中國銀監會關於進一步做好住房金融服務工作的通知) sets the minimum down payment ratio at 30% and the minimum interest rate at 0.7 times the PBOC benchmark interest rates on loans for a first-time home buyer for self-use. The regulation provides that banking institutions should apply the policies for first home buyers to families who already own a residential property, have fully repaid the relevant residential mortgage loans, and are applying for a loan to purchase another ordinary residential property to improve their living conditions. In cities that have lifted or have not imposed the restrictions for property purchase, where a family that owns two or more residential properties, has repaid in full all relevant loans and applies for a loan to purchase another residential housing, 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.
- according to the Notice of the PBOC, MOHURD and the CBRC on the Issues concerning Housing Loan Policies for Individuals (中國人民銀行、住房城鄉建設部、中國銀監會關於個人住房貸款政策有關問題的通知) provides that if a household owns one residential property but has not fully repaid the corresponding mortgage loan and applies for a commercial housing loan again to purchase an ordinary residential property for upgrading living conditions, the minimum down payment ratio has been adjusted to not less than 40%. The specific amount of the down payment and interest rate shall be determined by the relevant banking institutions based on factors including the credit standing and solvency of the borrowers. All units under the PBOC and the CBRC shall communicate effectively with local governments according to local conditions and providing guidance on different classifications, and reinforce the supervision on the implementation of differentiated housing loan policies by banking financial institutions. Based on the standardized credit policies of China, these units shall guide banking financial institutions on reasonably determining the minimum down payment and interest rate for personal commercial housing loans, closely track and evaluate the implementation and effects of housing credit policies, prevent risks effectively and promote healthy and stable development of the local real estate markets.
- the Notice of MOHURD, MOF and PBOC on Issues concerning the Adjustment on the Minimum Down Payment for Residential Mortgage Loans under Housing Allowances (住房和城鄉建設部、財政部、中國人民銀行關於調整住房公積金個人住房貸款購房最低首付款比例的通知) stipulates that since September 1, 2015, the minimum down payment shall be reduced to 20% from 30% for households possessing one residential property with no outstanding loans and applying for entrusted loans under housing allowances again for upgrading living conditions. Beijing, Shanghai, Guangzhou and Shenzhen may independently decide on the minimum down payment for entrusted loans under housing allowances for the second residential property based on the standardized policies of China and the local conditions.

- the Notice of PBOC and CBRC on Issues concerning the Further Improvement of Differential Housing Credit Policies (中國人民銀行、中國銀監會關於進一步完善差別化住房信貸政策有關問題的通知) states that for personal commercial housing loans provided to families for the first-time purchase of ordinary housing, the minimum down payment ratio shall be adjusted to not less than 25% in cities that have not imposed the restriction policy for property purchase. Each of the units under PBOC and CBRC shall strengthen communication with local governments according to local conditions and providing guidance on different classifications. Based on different situations in different cities under its governance, each unit shall give guidance to the local government for determining the minimum down payment for personal commercial housing loans by integrating self-regulatory mechanism for provincial market interest rates with local situations in accordance with the standardized credit policies of China.

- the Notice of PBOC and CBRC on Issues concerning the Adjustment on Residential Mortgage Loan Policies (中國人民銀行、中國銀監會關於調整個人住房貸款政策 有關問題的通知) requires that in cities that have not imposed home purchasing restrictions, the minimum down payment ratio for personal commercial housing loans provided to families for the first-time purchase of ordinary housing shall be 25% in principle with a downward floating range of 5 percentage points. The minimum down payment ratio shall be adjusted to no less than 30% for households possessing one residential property with outstanding loans but applying for more commercial housing loans to purchase ordinary housing for upgrading living conditions. In cities that have imposed home purchasing restrictions, the residential mortgage loan policies shall be carried out according to the existing stipulations. The banking financial institutions shall prudentially determine the minimum down payment ratio and loan rate by integrating the requirements of the minimum down payment ratio based on the provincial self-regulatory market rate mechanism, the internal policies of the banking financial institutions on personal commercial housing loans and risk prevention and control, as well as factors such as the solvency and credit standing of the borrowers.

CBRC has also issued relevant guidelines and measures to control risks relating to the loans to related parties. See "—Corporate Governance and Internal Controls—Related Party Transactions".

Foreign Exchange Business

Commercial banks are required to obtain approvals from PBOC, CBRC and SAFE or their branches 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 Assets Management Business

Generally speaking, PRC commercial banks are not allowed to engage in equity security trading and underwriting business. However, they are allowed to:

- Underwrite, buy and sell government bonds, financial bonds and commercial bonds issued by qualified non-financial institutions;

- Act as an agent for securities trading (including bonds issued by the PRC government, financial institutions and other corporate entities);
- Offer comprehensive asset management and consultancy service to institutions and retail investors;
- Act as a financial advisor to large infrastructure projects, M&As and bankruptcy restructuring; and
- Act as the trustee for funds such as securities investment funds and enterprise annuity funds.

According to Management Measures for Custody of Securities Investment Funds (證券投資基金託管業務管理辦法) published by CSRC and CBRC on April 2, 2013, a commercial bank is permitted to apply for the right to engage in custodian business for securities investment funds, if, amongst other requirements, such commercial bank has year-end net assets of no less than RMB2 billion at the end of each of the most recent three fiscal years and if its capital adequacy ratio meets the relevant regulatory requirements. The fund custodian must make sure to separate fund custody business from other businesses and isolate the fund assets. CSRC and CBRC will jointly examine and approve the qualifications of custody of commercial banks for fund custody and supervise them. According to the Management Measures for Enterprise Annuity Fund (企業年金基金管理辦法) jointly issued and amended by the Ministry of Human Resources and Social Security, CBRC, CSRC and CIRC on April 30, 2015, commercial banks shall establish independent custody and investment department when acting as the custodian of enterprise annuity plans. In addition, the office area, operation management process and business system must be separated strictly. The senior management members directly in charge and general staff in the custody business and investment department shall not hold concurrent posts mutually.

Insurance Agency Business

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 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 CIRC and 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 CIRC and authorization from the tier-one branch of the commercial bank before operating such business. On April 25, 2015, the CIRC issued the Notice on the Issues Relating to the Administrative Permits of Banks Engaging in Insurance Agency Business (關於銀行類保險兼業代理機構行政許可有關事項的通知) to replace the former requirement of the outlets being the holders of business licenses. Under the new requirements, the legal entity shall apply for the license to provide insurance agency services, obtain the business license and carry out centralized registration for all of its outlets. Therefore, outlets of banking institutions may provide insurance agency services based on the authorization of the banking institutions upon obtaining the licenses for insurance agency business.

On January 8, 2014, CIRC and 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. 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. On May 5, 2016, the CBRC issued the Notice on Regulating the Agency Sales Business of Commercial Banks (關於規範商業銀行代理銷售業務的通知), which sets out further requirements on the agency sales of financial products by commercial banks. According to the notice, commercial banks engaging in agency sales shall strengthen the qualification assessment of investors, fully disclose risks of products distributed, and only recommend financial products matching with the risk profile of customers. Commercial banks shall establish a system to separate the risks of agency sales business and other businesses in order to strictly separate the accounts, funds and accounting and auditing procedures of agency sales business. Commercial banks may only distribute financial products issued by financial institutions with financial licenses under the supervision and administration by the CBRC, CSRC and CIRC according to laws, and may not distribute products issued by other institutions beyond the authorized scope, except for government bonds, physical precious metals and other products required by the CBRC. Commercial banks shall conduct due diligence on products to be distributed, and shall not solely based on the review materials on the products provided by the counterparty.

Wealth Management

In September 24, 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). In addition to domestic 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.

In order to further standardize and regulate the sales of wealth management products, the CBRC issued the Management Measures on Sales of Wealth Management Products by Commercial Banks (商業銀行理財產品銷售管理辦法) on August 28, 2011, requiring commercial banks to operate prudently and disclose their wealth management business promptly, so as to fully protect the interests of consumers.

On March 25, 2013, the CBRC issued the Notice of the CBRC on Standardizing Certain Issues related to the Investment Operation of Wealth Management Business of Commercial Banks (中國銀監會關於規範商業銀行理財業務投資運作有關問題的通知), to reinforce the regulation of wealth management business of commercial banks. As required by the Notice, commercial banks shall clarify the invested assets for each wealth management product. In addition, the balance of non-standard debt assets invested with the wealth management fund of a commercial bank (namely the debt assets not traded on interbank market or stock exchange) shall not exceed 35% of the balance of wealth management products or 4% of its total assets disclosed in the auditor's report for the last year (whichever is lower) at any time.

On July 10, 2014, the CBRC issued the Notice on Issues Related to the Improvement of Banks' Organization and Management System of Wealth Management Business (關於完善銀行理財業務組織管理體系有關事項的通知), requiring banking financial institutions to reform the divisional system of wealth management business, establish dedicated wealth management operation department and manage the bank-wide wealth management business in a unified way according to requirements for independent accounting, risk separation, code of conduct, and convergence management. The wealth management business of commercial banks shall comply with the relevant regulatory requirements of the banking industry.

Bills Business

Under the PRC Commercial Banking Law, in respect of the settlement businesses of commercial banks, including the acceptance and discounts on bills, foreign exchange services and entrusted fund collection, the commercial banks shall honor the cheque and credit the account according to the term as required and shall not cumulate the order or cheque or dishonor the cheque in violation of the requirements. The prescribed terms for honoring the cheque and crediting the account shall be published.

On April 26, 2016, the PBOC and the CBRC issued the Circular on Tighter Supervision and Administration on Bills Business for Healthy Development of the Bills Market (關於加強票據業務監管促進票據市場健康發展的通知) ("Circular 126"), which requires commercial banks to (i) strengthen the internal management of the bills business, (ii) carry out background checks on the underlying transactions, (iii) regulate the conduct of the bills trading and (iv) self-examine the risks of the bills business. Branches of the PBOC and the CBRC also tightened their on-site and off-site examination on the bills business of commercial banks. In July 2016, the Bank completed a self-examination and submitted the report to Jilin Province Rural Credit Union for filing with the PBOC and the CBRC. No improper trading was identified during the self-examination. The Bank believes that the implementation of Circular 126 would not materially and adversely affect the Bank's business, financial condition and results of operations.

Interbank 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) the Circular 127 defines and regulates interbank investment and financing businesses, including interbank lending, interbank deposits, interbank borrowing, interbank payments, financial assets held under resale agreements or financial assets sold under repurchase agreements; and the Circular also required that interbank 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 interbank borrowing may not exceed three years and the term of other interbank financings may not exceed one year, and such terms may not be extended upon their maturity; (vi) the net balance of interbank funds (excluding interbank 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-one capital; and the net balance of interbank funds borrowed by a single commercial bank may not exceed one third of its total liabilities; and (vii) financial institutions engaging in interbank 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 CBRC issued the Notice on the Regulation of the Management of Interbank 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), which requires commercial banks to establish a management system for interbank businesses based on the scale and complexity of the interbank businesses conducted, and conduct all interbank businesses through specialized departments by the end of September 2014. For the interbank businesses which can be conducted in the form of electronic transactions via financial trading markets, such as interbank borrowing and lending, bonds held under resale agreements and bonds sold under repurchase agreements and certificates of interbank deposits, specialized departments may not entrust other departments or branches to handle them. For the interbank 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 license of interbank businesses, improve the credit management policies and the counterparty entry system.

Upon the implementation of Circular 127 and Circular 140, the Bank and each subsidiary bank have been in compliance with the relevant requirements thereunder in operating interbank business. The implementation of Circular 127 and Circular 140 has not resulted in any material adverse effect on the Group's business operation or financial condition.

Electronic Banking

According to the requirements of CBRC, all commercial banks seeking to establish an e-banking business shall develop sound risk management and internal control systems, and adopt security measures to ensure the confidentiality of customer information and prevent the unauthorized use of e-banking accounts. In addition, commercial banks 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 for establishing e-banking business.

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 CBRC issued the "Notice on Establishment of Community Sub-Branches and SME Sub-Branches by Small- and Medium-sized Commercial Banks" (中國銀監會辦公廳關於中小商業銀行設立社區支行、小微支行有關事項的通知), supporting eligible small- and medium-sized commercial banks to set up community sub-branches and 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.

Financial Innovations

In December 5, 2006, CBRC issued the Guidelines on Financial Innovations 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. CBRC has indicated that it will streamline approval procedures and improve the approval efficiency for new products in order to encourage the financial innovation of PRC commercial banks.

Financing to Small and Micro Enterprises

On April 19, 2012, the State Council issued its Opinions on Further Supporting the Healthy Development of Small and Micro Enterprises (國務院關於進一步支持小型微型企業健康發展的意見), clarifying its further support to the healthy development of small and micro enterprises. On August 2, 2012, the General Office of the State Council issued the Plan for Work Division among Major Departments for Further Supporting the Healthy Development of Small and Micro Enterprises (進一步支持小型微型企業健康發展重點工作部門分工方案), dividing the work among CBRC, PBOC, MOF and other departments for relieving the financing difficulty facing small and micro enterprises.

On August 8, 2013, the General Office of the State Council issued the Implementation Opinions on Financial Supports to the Development of Small and Micro Enterprises (關於金融支持小微企業發展的實施意見), giving certain advices on further enhancing financial services to small and micro enterprises and the support to their development.

On August 29, 2013, the CBRC issued the Guiding Opinions on Further Improving Financial Services to Small 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 proposes certain requirements on further promoting Chinese banking industry financial service to small and micro enterprises, further improving the monitoring indicator system and assessments of financial service for small and micro enterprises.

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

On June 24, 2015, the CBRC issued the Notice from CBRC to Further Implement Financial Service Supervising Policy of Small and Micro Enterprises (中國銀監會關於進一步落實小微企業金融服務監管政策的通知), which proposes certain requirements on ensuring the implementation of policies, clarifying the emphasis of supports, increasing the input of credit and loan, advancing the innovation of loan services, improving tolerance indicator of non-performing assets, strengthening differentiated assessment, improving the service ability, and standardizing service charge for the purpose of implementing each supporting policy and continually improving and deepening financial service to small and micro enterprises.

Internet Finance

On July 18, 2015, PBOC, CBRC, Ministry of Industry and Information Technology and other ministries jointly issued the Guiding Opinions on Promoting Healthy Development of Internet Finance (關於促進互聯網金融健康發展的指導意見) with an aim to promote financial reforms and innovations and healthy development of internet finance by providing the following guidelines: (i) encouraging innovations and supporting the stable development of internet finance; (ii) providing separate guidelines and specifying supervision responsibility regarding internet finance; and (iii) optimizing the systems and regulating the order of internet finance market.

Certificates of Deposit

Pursuant to the Provisional Measures on Management of Certificates of Deposit (大額存單管理暫行辦法) promulgated by the PBOC on June 2, 2015 and amended on June 3, 2016, the development of certificates of deposit business is regulated and the market pricing range of liability products issued by deposit-taking financial institutions is expanded to promote the liberalization of interest rates in an orderly manner. A self-regulated pricing system shall be developed by banks to determine the interest rates of certificates of deposit based on market conditions and the relevant rules. The PBOC also promulgated the Implementation Provisions of Management of Certificates of Deposit (大額存單管理實施細則) on June 2, 2015.

PRICING OF PRODUCTS AND SERVICES

Interest Rates for Loans and Deposits

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

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. On August 19, 2006, the minimum interest rate for personal residential mortgage loans was adjusted to 85% of the PBOC benchmark lending rate. On October 27, 2008, the minimum interest rate for personal residential mortgage loans was adjusted to 70% of the PBOC benchmark lending rate. On April 17, 2010, the minimum interest rate for the personal residential mortgage loans to second-time home buyers in China was adjusted to 110% of the PBOC benchmark lending rate. Effective July 20, 2013, 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, PBOC and CBRC announced that the policies for first-time home buyers should apply if a family already owned a residence, had fully repaid the relevant loan, and applied for a loan to purchase another ordinary commercial residence to improve its living condition.

With effect from October 29, 2004, commercial banks in the PRC were allowed to set their own interest rates of RMB-denominated deposits so long as such interest rates were not higher than the relevant PBOC benchmark rates. With effect from June 8, 2012, commercial banks in the PRC were allowed to set their own interest rates of RMB-denominated deposits up to 110% of the relevant PBOC benchmark rates. With effect from November 22, 2014, commercial banks in the PRC were allowed to set their own interest rates of RMB-denominated deposits up to 120% of the relevant PBOC benchmark rates. With effect from March 1, 2015, commercial banks in the PRC were allowed to set their own interest rates of RMB-denominated deposits up to 130% of the relevant PBOC benchmark rates. With effect from May 11, 2015, the PBOC adjusted the cap of interest rates on RMB-denominated deposits to 150% of the relevant PBOC benchmark rates. However, such restrictions do not apply to interest rates on negotiated deposits, which are deposits by domestic insurance companies of RMB30 million or more or deposits by social security funds of RMB500 million or more, in each case with a term of more than five years, or deposits by Postal Savings Bank of China of RMB30 million or more with a term of more than three years, or pension insurance funds of RMB500 million or more with a term of more than five years. Effective August 26, 2015, PBOC removed the cap on the interest rates on RMB-denominated time deposits with tenors of longer than one year while the cap on the interest rates on RMB-denominated demand deposits and time deposits with tenors up to one year remain unchanged. Furthermore, effective October 24, 2015, PBOC removed the cap on interest rates on deposits and allowed commercial banks in China to set interest rates on deposits based on commercial considerations.

From 2011 to the Latest Practicable Date, the PBOC has adjusted the benchmark interest rate for RMB-denominated loans and the benchmark interest rate for RMB-denominated deposits for 11 times respectively.

The following table sets forth the PBOC benchmark interest rates for RMB-denominated loans since 2011.

Adjustment date	Six months or below	Six months to one year (inclusive)	Over one to three years (inclusive)	Over three to five years (inclusive)	Over five years	Housing provident fund loan: Five years or below	Housing provident fund loan: Over five years
			(Annualized interest rate: %)				
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
March 1, 2015	5.35	5.35	5.75	5.75	5.90	3.50	4.00
May 11, 2015	5.10	5.10	5.50	5.50	5.65	3.25	3.75
June 28, 2015	4.85	4.85	5.25	5.25	5.40	3.00	3.50
August 26, 2015	4.60	4.60	5.00	5.00	5.15	2.75	3.25
October 24, 2015	4.35	4.35	4.75	4.75	4.90	2.75	3.25

Source: the PBOC

The following table sets forth the PBOC benchmark interest rates for RMB-denominated deposits since 2011.

Adjustment date	Demand deposit	Time deposit: Three months	Six months	One year	Two years	Three years	Five years
			(Annual interest rate: %)				
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)
March 1, 2015	0.35	2.10	2.30	2.50	3.10	3.75	N/A
May 11, 2015	0.35	1.85	2.05	2.25	2.85	3.50	N/A
June 28, 2015	0.35	1.60	1.80	2.00	2.60	3.25	N/A
August 26, 2015	0.35	1.35	1.55	1.75	2.35	3.00	N/A
October 24, 2015	0.35	1.10	1.30	1.50	2.10	2.75	N/A

Source: the PBOC

(1) Since November 22, 2014, the PBOC has not announced the benchmark rate of five-year RMB-denominated time deposits.

Commercial banks are currently approved to negotiate and determine interest rates for foreign currency-denominated loans and deposits.

Pricing for Fee and Commission-based Products and Services

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 certain charging items in relation to RMB personal accounts starting from July 1, 2011.

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 CBRC and 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 Administrative Measures on Pricing of Commercial Banking Services.

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, according to relevant requirements of the PBOC, non-county rural commercial banks shall be subject to a required reserve ratio of 15%. Non-county rural commercial banks which satisfy the requirement of prudent operation and whose loans to the "three rurals" or SMEs increased by 15% as of the end of the first half of the year shall be subject to a required reserve ratio of 0.5 percentage points lower than the statutory level of similar institutions; non-county rural commercial banks which satisfy the requirement of prudent operation and whose loans to the "three rurals" or SMEs increased by 50% as of the end of the first half of the year with a remaining balance accounting for 30% shall be subject to a required reserve ratio of 1.5 percentage points lower than the statutory level of similar institutions. County rural commercial banks shall be subject to a required reserve ratio of 12%. County rural commercial banks whose new loans amount to certain percentage of the local requirements shall be subject to a required reserve ratio of 1 percentage point lower than the statutory level.

SUPERVISION OVER CAPITAL ADEQUACY

Latest CBRC Supervisory Standards over Capital Adequacy

On February 23, 2004, CBRC issued the Capital Adequacy Measures which became effective on March 1, 2004 and was amended on July 3, 2007.

The Bank, each subsidiary bank and the Group were required to comply with the Capital Adequacy Measures before January 1, 2013. The Capital Adequacy Measures required commercial banks to maintain a minimum capital adequacy ratio of 8% and a minimum core capital adequacy ratio of 4%.

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:

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

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

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

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 other tier 1 capital instrument as well as its premium and applicable portions of minority shareholders' capital that may be included.
Tier 2 Capital	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	Refer to items that should be deducted correspondingly when commercial banks calculate the capital adequacy ratio at each tier.
Risk-weighted assets	Include 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 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%
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 financial 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%
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 International Settlement Bank 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%

Items	Risk weightings
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	1,250%
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	1,250%
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 0.0% 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.

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 (Provisional) (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: The Bank and each subsidiary bank 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

With effect from June 17, 2004, pursuant 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 CBRC, PRC commercial banks are permitted to issue bonds which are subordinated to the banks' other liabilities but are senior to the banks' equity capital. Upon approval by 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, while the PBOC regulates the issuance and trading of subordinated bonds in the inter-bank bond market.

On September 5, 2006, the PBOC issued the PBOC Announcement (2006) No.11 – Notice 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 set out the definition and regulations on the issuance of hybrid capital bonds.

On June 7, 2012, 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-one capital, other tier-one capital and tier-two capital. Also, the Capital Administrative Measures proposed the concept and criteria for inclusion of tier-two capital instruments, which differ from that of subordinated debt, subordinated bonds and hybrid capital bonds. Pursuant to the Capital Administrative Measures, unqualified tier-two capital instruments issued by a commercial bank before September 12, 2010 may be included in regulatory capital before January 1, 2013, but, from January 1, 2013, such instruments are to be decreased by 10% each year and, from January 1, 2022, such instruments are no longer allowed to be included in regulatory capital. For a tier-two capital instrument issued by a commercial bank between September 12, 2010 and January 1, 2013, if the instrument has no write-down or share conversion clause but meets 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 CBRC on November 29, 2012 allow and encourage commercial banks to innovate capital instruments (including tier-two capital instruments) which comply with the Capital Administrative Measures. Pursuant to the guiding opinions, other tier-one capital and tier-two 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-one capital instruments occurs when the core tier-one capital adequacy ratio of the commercial bank falls to 5.125% or below. A triggering event for tier-two capital instruments occurs upon the earlier of (i) a decision of write-down or share conversion, without which the commercial bank would become nonviable, as determined by 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, CSRC and 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 took effect from November 6, 2013. According to the guiding opinions, the listed or 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 CBRC for the confirmation of the nature of capital according to the relevant regulations. 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 21, 2014, CSRC promulgated the Administrative Measures on the Pilot Scheme of Preference Shares (優先股試點管理辦法) which sets out 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.

On April 3, 2014, CBRC and CSRC jointly issued the Guidelines on the Issuance of Preference Shares by Commercial Banks for Tier-one Capital Replenishment (關於商業銀行發行優先股補充一級資本的指導意見), which allows commercial banks to issue preference shares to replenish tier-one capital. The issuance of preference shares by commercial banks shall comply with the requirements of the State Council and CSRC and fulfill the conditions regarding the issue of capital replenishment instruments of CBRC. In addition, the core tier-one capital adequacy ratio shall meet the prudent regulatory requirements of CBRC. The issuance of preference shares by commercial banks shall comply with the Capital Administration Measures and meet the standard requirements regarding other tier-one capital instruments of the Guiding Opinions on Capital Instrument Innovation of Commercial Banks. Commercial banks shall apply to CBRC (or its local offices) for the issuance and apply to CSRC after obtaining the approval of CBRC. CSRC will review the application according to the Administrative Measures on the Pilot Scheme of Preference Shares (優先股試點管理辦法) and other regulations. Non-listed commercial banks shall apply for the listing of the preference shares on the National Equities Exchange and Quotations System for public trading under the supervision of non-listed public companies in accordance with the requirements of CSRC.

CBRC's Supervision of Capital Adequacy

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 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 CBRC adopts corresponding measures to these banks, the details of which are as follows:

Categories	Capital adequacy	Measures of 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.

Categories	Capital adequacy	Measures of CBRC
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; • 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 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 compulsorily 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: As at December 31, 2015, the Bank was 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 January 30, 2015, the CBRC issued the Administrative Measures on the Leverage Ratio of Commercial Banks (商業銀行槓桿率管理辦法), which came into effect on April 1, 2015.

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

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

Commercial banks are required to regularly present their gearing ratio statements pursuant to the requirements of the CBRC and its branches. Their consolidated gearing ratio statements shall be presented on a semi-annual basis and their unconsolidated gearing ratio statements shall be presented on an annual basis.

For a commercial bank whose gearing ratio is lower than the minimum regulatory requirement, the CBRC and its branches may take the following rectification measures 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 and its branches may identify the situation and take relevant regulatory measures pursuant to the PRC Banking Supervision and Regulatory Law: (i) demand suspension of certain business activities and approval of new businesses; (ii) limit dividend distribution and other income; (iii) suspend approval of opening new branches; (iv) demand transfer of equity interest held by controlling shareholders or limit exercise of their shareholders' rights; (v) demand change of directors, supervisors and senior management or limit their rights; and (vi) other measures stipulated by the 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 minimum requirements on leverage ratio before April 1, 2015 when the Measures become effective, while non-systematically important banks are required to meet such requirements on leverage ratio before the end of 2016. The Bank is a non-systematically important bank, and the Bank has already met the regulatory requirement on leverage ratio of not lower than 4%.

Basel Accords

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. 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.

CBRC promulgated and amended the Capital Adequacy Measures on February 23, 2004 and July 3, 2007, respectively. CBRC has advised that the Capital Adequacy Measures are based on Basel I, while also taking into consideration certain aspects of Basel II. 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, CBRC promulgated the Guiding Opinions on the Implementation of New Regulatory Standards in China's Banking Industry (中國銀監會關於中國銀行業實施新監管標準的指導意見), which set out the key targets and principles for the reform of China's capital regulatory framework. On June 1, 2011, CBRC issued the Administrative Measures on the Leverage Ratio of Commercial banks. On June 7, 2012, 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, 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). In September 2015, CBRC revised 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)). In January 2014, the Basel Committee issued the Leverage Ratio Framework and Disclosure Requirements in the Third Installment of Basel Accords (第三版巴塞爾協議槓桿率框架和披露要求), which revised the international rules in relation to leverage ratio. According to the new rules of leverage ratio by the Basel Committee, in 2015, CBRC revised the Administrative Measures on the Leverage Ratio of Commercial Banks which was issued on June 1, 2011, and put forward clearer and stricter requirements for the disclosure of leverage ratio of commercial banks.

LOAN CLASSIFICATION, ALLOWANCES AND WRITE-OFFS

Loan Classification

Commercial 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". A loan classified as substandard, doubtful or loss is considered to be non-performing. The primary factors for evaluating the likelihood of repayment include the borrower's cash flow, financial conditions and credit history.

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.

Under the Guidelines on Bank Loan Loss Allowance (銀行貸款損失準備計提指引), 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 requirements 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 promulgated on July 27, 2011 by CBRC 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 and submit the same to CBRC and reach such standard by the end of 2018 at the latest. The table below sets forth the provision coverage ratio of the Bank and each of the 37 subsidiary banks as of June 30, 2016 under PRC GAAP as of the dates indicated.

	As of December 31,			As of June 30,
	2013	2014	2015	2016
The Bank	406.19%	353.52%	203.40%	208.34%
Jilin Dehui Rural Commercial Bank	178.29	236.10	210.15	212.11
Changbai Mountain Rural Commercial Bank	300.05	198.55	307.09	358.58
Jilin Gongzhuling Rural Commercial Bank	—[1]	—[1]	216.37	226.65
Jilin Chuncheng Rural Commercial Bank	—[2]	—[2]	687.82	300.69
Liaoyuan Rural Commercial Bank	169.00	184.80	186.36	189.23
Jilin Fengman Huimin Village and Township Bank	—[18]	—[18]	393.52	559.60
Changchun Nanguan Huimin Village and Township Bank	—[18]	—[18]	311.63	340.11
Da'an Huimin Village and Township Bank	—[18]	—[18]	3,043.21	3,274.46
Qingdao Pingdu Huimin Village and Township Bank	1,000.86	520.38	286.84	308.33
Qianan Huimin Village and Township Bank	—[18]	605.21	23,137.20	4,672.94
Lujiang Huimin Village and Township Bank	979.98	572.06	221.62	277.75
Wuchang Huimin Village and Township Bank	—[18]	3,078.95	815.97	326.67
Wenan County Huimin Village and Township Bank	—[18]	—[18]	609.31	795.87
Huadian Huimin Village and Township Bank	—[18]	—[18]	1,573.68	1,573.68
Anci District Huimin Village and Township Bank	—[18]	—[18]	1,686.06	255.24
Gaomi Huimin Village and Township Bank	—[18]	180.68	259.57	325.48
Hanshan Huimin Village and Township Bank	233.89	376.56	173.69	185.47
Shuangcheng Huimin Village and Township Bank	550.47	206.69	306.12	282.56
Tongcheng Huimin Village and Township Bank	—[18]	—[18]	710.20	302.12
Guangzhou Huangpu Huimin Village and Township Bank	—[3]	—[18]	—[18]	—[18]
Qingyuan Qingxin Huimin Village and Township Bank	—[4]	—[18]	—[18]	—[18]
Wuhua Huimin Village and Township Bank	—[5]	—[18]	908.33	1,719.91
Heyang Huimin Village and Township Bank	—[6][18]	—[18]	—[18]	—[18]
Yun'an Huimin Village and Township Bank	—[7]	—[18]	—[18]	—[18]
Jingmen Dongbao Huimin Village and Township Bank	—[18]	—[18]	160.08	175.00
Songyuan Ningjiang Huimin Village and Township Bank	10,545.88	9,853.84	3,941.67	474.38
Changchun Gaoxin Huimin Village and Township Bank	—[18]	—[18]	—[18]	725.75
Huidong Huimin Village and Township Bank	—[8]	—[8][18]	—[18]	—[18]
Tianjin Binhai Huimin Village and Township Bank	—[9]	—[18]	—[18]	—[18]
Fuyu Huimin Village and Township Bank	—[10]	—[10]	—[10][18]	—[18]
Anping Huimin Village and Township Bank	—[11][18]	—[18]	—[18]	—[18]
Taonan Huimin Village and Township Bank	—[12]	—[12]	—[12][18]	—[18]
Baicheng Taobei Huimin Village and Township Bank	—[13]	—[13]	—[13][18]	—[18]
Leizhou Huimin Village and Township Bank	—[14]	—[14]	—[18]	—[18]
Lingshui Dasheng Village and Township Bank	—[15]	—[15]	—[15][18]	—[18]
Jilin Chuanying Huimin Village and Township Bank	—[16]	—[16]	—[16]	—[18]
Sanya Phoenix Village and Township Bank	—[17]	—[17]	—[17]	153.38%

Notes:

(1) The Bank has controlled and consolidated Jilin Gongzhuling Rural Commercial Bank since October 12, 2015.
(2) The Bank has controlled and consolidated Jilin Chuncheng Rural Commercial Bank since October 12, 2015.
(3) The Bank has controlled and consolidated Guangzhou Huangpu Huimin Village and Township Bank since February 7, 2014.
(4) The Bank has controlled and consolidated Qingyuan Qingxin Huimin Village and Township Bank since January 23, 2014.
(5) The Bank has controlled and consolidated Wuhua Huimin Village and Township Bank since January 13, 2014.
(6) The Bank has controlled and consolidated Heyang Huimin Village and Township Bank since December 16, 2013.
(7) The Bank has controlled and consolidated Yun'an Huimin Village and Township Bank since January 27, 2014.
(8) The Bank has controlled and consolidated Huidong Huimin Village and Township Bank since November 21, 2014.
(9) The Bank has controlled and consolidated Tianjin Binhai Huimin Village and Township Bank since June 11, 2014.
(10) The Bank has controlled and consolidated Fuyu Huimin Village and Township Bank since December 14, 2015.
(11) The Bank has controlled and consolidated Anping Huimin Village and Township Bank since December 24, 2013.
(12) The Bank has controlled and consolidated Taonan Huimin Village and Township Bank since December 11, 2015.
(13) The Bank has controlled and consolidated Baicheng Taobei Huimin Village and Township Bank since November 23, 2015.
(14) The Bank has controlled and consolidated Leizhou Huimin Village and Township Bank since March 25, 2015.
(15) The Bank has controlled and consolidated Lingshui Dasheng Village and Township Bank since December 31, 2015.

(16) The Bank has controlled and consolidated Jilin Chuanying Huimin Village and Township Bank since January 21, 2016.
(17) The Bank has controlled and consolidated Sanya Phoenix Village and Township Bank since June 22, 2016.
(18) The outstanding balance of non-performing loans was nil.

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. The CBRC may 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 may take further regulatory actions if the 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, subject to the conditions stipulated by the tax authorities.

Allowance and Statutory General Reserve for Impairment Losses

On March 30, 2012, the MOF issued the Administrative Measures for the Provisioning for Reserves of Financial Institutions (金融企業準備金計提管理辦法), which requires that, in principle, the general statutory reserve shall be no less than 1.5% of the risk-bearing assets at the balance sheet date of the financial institutions. 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

To prevent financial risk by enhancing risk identification, evaluation and alert, the CBRC promulgated the Core Indicators (Provisional) (商業銀行風險監管核心指標（試行）) on December 31, 2005, which sets forth the following regulatory requirements for the regulatory ratios in the table below.

Risk level	Primary indicators	Secondary indicators	Requirement (%)
Risk Level			
Liquidity Risk	Liquidity ratio		≥25
	Core liabilities		≥60
	Liquidity gap ratio		≥-10
Credit risk	Non-performing asset ratio		≤4
		Non-performing loan ratio	≤5
	Credit exposure to a single group customer		≤15
		Loan exposure to a single customer	≤10
	Overall credit exposure to related parties		≤50
Market risk	Cumulative foreign currency exposure ratio		≤20
Risk Cushion			
Profitability	Cost-to-income ratio		≤45
	Return on assets		≥0.6
	Return on capital		≥11
Allowance Adequacy	Allowance adequacy ratio for asset losses		>100
		Allowance adequacy ratio for loan losses	>100
Capital adequacy	Capital adequacy ratio		≥9.7
		Tier 1 capital adequacy ratio	≥7.7
		Core tier 1 capital adequacy ratio	≥6.7

In addition, the Core Indicators (Provisional) set out other ratios, such as ratios relating to interest rate risk sensitivity, operational risk and loan migration, without requiring their compliance. The CBRC may in the future require compliance.

Regulatory Indicators of the Bank

The table below sets out the ratios specified in the Core Indicators (Provisional) in respect of the Bank on an unconsolidated basis under PRC GAAP as of the dates indicated.

				Ratios of the Bank (on a non-consolidated basis) (%)			
				As of December 31,			As of June 30,
Risk level	Primary indicators	Secondary indicators	Requirement (%)	2013	2014	2015	2016
Risk Level							
Liquidity Risk	Liquidity ratio[(1)]		≥25	66.86	63.27	78.33	36.02
	Core liabilities[(2)]		≥60	60.14	60.44	66.22	65.55
	Liquidity gap ratio[(3)]		≥-10	69.00	58.52	25.44	25.46
Credit risk	Non-performing asset ratio[(4)]		≤4	0.36	0.44	0.51	0.32
		Non-performing loan ratio[(5)]	≤5	0.74	0.72	1.28	1.26
	Credit exposure to a single group customer[(6)]		≤15	3.87	6.35	6.16	6.00
		Loan exposure to a single customer[(7)]	≤10	3.87	6.35	6.16	6.00
	Overall credit exposure to related parties[(8)]		≤50	0	0	0.20	10.83
Market risk	Cumulative foreign currency exposure ratio[(9)]		≤20	0	0.01	0.02	0.01
Risk Cushion							
Profitability	Cost-to-income ratio[(10)]		≤45	36.60	33.72	32.66	26.17
	Return on assets[(11)]		≥0.6	1.67	2.15	1.77	1.64
	Return on capital[(12)]		≥11	14.41	18.77	17.40	18.01
Allowance Adequacy	Allowance adequacy ratio for asset losses[(13)]		>100	795.16	747.14	488.59	526.22
		Allowance adequacy ratio for loan losses[(14)]	>100	794.74	746.59	491.39	518.04
Capital adequacy	Capital adequacy ratio[(15)]		≥9.7	14.28	12.52	12.85	11.83
		Tier 1 capital adequacy ratio	≥7.7	10.04	9.52	9.76	8.98
		Core tier 1 capital adequacy ratio	≥6.7	10.04	9.52	9.76	8.98

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 Related-Party 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 – business tax and surcharges)/net 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 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) Since 2013, the Bank has 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 requirements of the CBRC, China's commercial banks (except systematically important banks) shall maintain (i) the minimum capital adequacy ratio of 8.5%, 8.9%, 9.3% and 9.7% as of December 31, 2013, 2014, 2015 and 2016, respectively; (ii) the minimum tier 1 capital adequacy ratio of 6.5%, 6.9%, 7.3% and 7.7% as of December 31, 2013, 2014, 2015 and 2016, respectively; and (iii) the minimum core tier 1 capital adequacy ratio of 5.5%, 5.9%, 6.3% and 6.7% as of December 31, 2013, 2014, 2015 and 2016, respectively. According to the Capital Administrative Measures, as of June 30, 2015, the Bank's capital adequacy ratio, tier 1 capital adequacy ratio, and core tier 1 capital adequacy ratio were 11.83%, 8.98%, and 8.98%, respectively.

Regulatory Indicator Compliance by the Subsidiary Banks

During the Track Record Period, except as disclosed below, each subsidiary bank complied with the key regulatory indicators set forth in the Core Indicators (Provisional). The Bank categorizes the subsidiary banks in terms of the extent by which they failed to meet the relevant regulatory requirements (significant extent refers to more than 50%, moderate extent refers to 10% to 50%, and slight extent refers to less than 10%).

Liquidity Indicators

Some of the subsidiary banks did not meet the core liabilities ratio and liquidity gap ratio as set forth in detail below:

Core Liabilities Ratio

- As of December 31, 2013, 1 rural commercial bank and 10 village and township banks did not meet the core liabilities ratio. These subsidiary banks consist of (1) 4 village and township banks that fell short by a significant extent, and (2) 1 rural commercial bank and 6 village and township banks that fell short by a moderate extent, of the minimum requirement.
- As of December 31, 2014, 3 rural commercial banks (including Jilin Dehui Rural Commercial Bank restructured from Dehui Rural Credit Cooperative acquired in December 2013) and 16 village and township banks did not meet the core liabilities ratio. These subsidiary banks consist of (1) 8 village and township banks that fell short by a significant extent, (2) 6 village and township banks that fell short by a moderate extent, and (3) 3 rural commercial banks and 2 village and township banks, that fell short by a slight extent, of the minimum requirement.
- As of December 31, 2015, 1 rural commercial bank and 16 village and township banks (including Lingshui Dasheng Village and Township Bank acquired in December 2015) did

not meet the core liabilities ratio. These subsidiary banks consist of (1) 6 village and township banks that fell short by a significant extent, (2) 9 village and township banks that fell short by a moderate extent, and (3) 1 rural commercial bank and 1 village and township bank that fell short by a slight extent, of the minimum requirement.

- As of June 30, 2016, 4 rural commercial banks (including Jilin Dehui Rural Commercial Bank restructured from Dehui Rural Credit Cooperative acquired in December 2013 and Jilin Chuncheng Rural Commercial Bank restructured from three rural credit cooperatives acquired in October 2015) and 15 village and township banks (including Lingshui Dasheng Village and Township Bank acquired in December 2015 and Sanya Phoenix Village and Township Bank acquired in June 2016) did not meet the core liabilities ratio. These subsidiary banks consist of (1) 4 village and township banks that fell short by a significant extent, (2) 3 rural commercial banks and 9 village and township banks that fell short by a moderate extent, and (3) 1 rural commercial bank and 2 village and township banks that fell short by a slight extent, of the minimum requirement.

Each subsidiary bank reports its core liabilities ratios to the CBRC on a quarterly basis. As of September 30, 2016 (the latest quarter end), among the 19 subsidiary banks that did not meet the core liabilities ratio requirement as of June 30, 2016, 1 rural commercial bank and 1 village and township bank had complied with the core liabilities ratio requirement.

Liquidity Gap Ratio

- As of December 31, 2013, 1 village and township bank significantly fell short of the minimum liquidity gap ratio requirement.
- As of December 31, 2014, 2 village and township banks significantly fell short of the minimum liquidity gap ratio requirement.
- As of December 31, 2015, 1 rural commercial bank slightly fell short of the minimum liquidity gap ratio requirement, and 3 village and township banks (including Lingshui Dasheng Village and Township Bank acquired in December 2015) significantly fell short of the minimum liquidity gap ratio requirement.
- As of June 30, 2016, 1 village and township bank (including Lingshui Dasheng Village and Township Bank acquired in December 2015) significantly fell short of the minimum liquidity gap ratio requirement.

Each subsidiary bank reports its liquidity gap ratios to the CBRC on a quarterly basis. The village and township bank that did not meet the liquidity gap ratio as of June 30, 2016 had not met the liquidity gap ratio requirement as of September 30, 2016 (the latest quarter end).

Failure to meet the core liabilities ratio or liquidity gap ratio does not necessarily exposes the Bank or the subsidiary banks to any immediate and material liquidity risk. In addition, these ratios are no longer regulatory indicators 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）) issued by the CBRC, as amended on September 2, 2015 and effective from October 1, 2015.

Profitability Indicators

Some of the subsidiary banks did not meet the cost-to-income ratio, return on assets ratio and return on capital ratio partly because they have a short operating history, and are still in an early stage of development with further room for improvement in their operational efficiency.

Cost-to-income Ratio

- In 2013, 2 rural commercial banks (including Jilin Dehui Rural Commercial Bank restructured from Dehui Rural Credit Cooperative acquired in December 2013) and 17 village and township banks did not meet the cost-to-income ratio. These subsidiary banks consist of (1) 9 village and township banks that exceeded by a significant extent, and (2) 2 rural commercial banks and 8 village and township banks that exceeded by a moderate extent, the prescribed limit.
- In 2014, 24 village and township banks did not meet the cost-to-income ratio. These subsidiary banks consist of (1) 14 village and township banks that exceeded by a significant extent, and (2) 10 village and township banks that exceeded by a moderate extent, the prescribed limit.
- In 2015, 2 rural commercial banks (including Jilin Chuncheng Rural Commercial Bank restructured from three rural credit cooperatives acquired in October 2015 and Jilin Gongzhuling Rural Commercial Bank restructured from Jilin Gongzhuling Rural Cooperative Bank acquired in October 2015) and 27 village and township banks (including Lingshui Dasheng Village and Township Bank acquired in December 2015) did not meet the cost-to-income ratio. These subsidiary banks consist of (1) 1 rural commercial bank and 17 village and township banks that exceeded by a significant extent, (2) 1 rural commercial bank and 9 village and township banks that exceeded by a moderate extent, and (3) 1 village and township bank that exceeded by a slight extent, the prescribed limit.
- In the six months ended June 30, 2016, 29 village and township banks (including Lingshui Dasheng Village and Township Bank acquired in December 2015 and Sanya Phoenix Village and Township Bank acquired in June 2016) did not meet the cost-to-income ratio. These subsidiary banks consist of (1) 19 village and township banks that exceeded by a significant extent, (2) 8 village and township banks that exceeded by a moderate extent, and (3) 2 village and township banks that exceeded by a slight extent, the prescribed limit.

Each subsidiary bank reports its cost-to-income ratios to the CBRC on a quarterly basis. The 29 village and township banks that did not meet the cost-to-income ratio requirement as of June 30, 2016 had not meet the cost-to-income ratio requirement as of September 30, 2016 (the latest quarter end).

Return on Assets Ratio

- As of December 31, 2013, 9 village and township banks did not meet the return on assets ratio. These subsidiary banks consist of (1) 5 village and township banks that fell short by a significant extent, and (2) 4 village and township banks that fell short by a moderate extent, of the minimum requirement.
- As of December 31, 2014, 8 village and township banks significantly fell short of the minimum return on assets ratio requirement.

- As of December 31, 2015, 1 rural commercial bank (including Jilin Chuncheng Rural Commercial Bank restructured from three rural credit cooperatives acquired in October 2015) and 13 village and township banks (including Lingshui Dasheng Village and Township Bank, acquired in December 2015) did not meet the return on assets ratio. These subsidiary banks consist of (1) 1 rural commercial bank and 10 village and township banks that fell short by a significant extent, and (2) 3 village and township banks that fell short by a moderate extent, of the minimum requirement.
- As of June 30, 2016, 20 village and township banks (including Lingshui Dasheng Village and Township Bank acquired in December 2015 and Sanya Phoenix Village and Township Bank acquired in June 2016) did not meet the return on assets ratio. These subsidiary banks consist of (1) 19 village and township banks that fell short by a significant extent, and (2) 1 village and township bank that fell short by a moderate extent, of the minimum requirement.

Each subsidiary bank reports their return on assets ratios to the CBRC on a quarterly basis. As of September 30, 2016 (the latest quarter end), among the 20 subsidiary banks that did not meet the return on assets ratio requirement as of June 30, 2016, 1 village and township bank had complied with the return on assets ratio requirement.

Return on Capital Ratio

- As of December 31, 2013, 11 village and township banks did not meet the return on capital ratio. These subsidiary banks consist of (1) 8 village and township banks, that fell short by a significant extent, and (2) 3 village and township banks that fell short by a moderate extent, of the minimum requirement.
- As of December 31, 2014, 16 village and township banks did not meet the return on capital ratio. These subsidiary banks consist of (1) 10 village and township banks, that fell short by a significant extent, (2) 4 village and township banks that fell short by a moderate extent, and (3) 2 village and township banks that fell short by a slight extent, of the minimum requirement.
- As of December 31, 2015, 1 rural commercial bank (including Jilin Chuncheng Rural Commercial Bank restructured from three rural credit cooperatives acquired in October 2015) and 17 village and township banks (including Lingshui Dasheng Village and Township Bank acquired in December 2015) did not meet the return on capital ratio. These subsidiary banks consist of (1) 1 rural commercial bank and 11 village and township banks that fell short by a significant extent, (2) 5 village and township banks that fell short by a moderate extent, and (3) 1 village and township bank that fell short by a slight extent, of the minimum requirement.
- As of June 30, 2016, 1 rural commercial bank (including Jilin Chuncheng Rural Commercial Bank restructured from three rural credit cooperatives acquired in October 2015) and 24 village and township banks (including Lingshui Dasheng Village and Township Bank acquired in December 2015 and Sanya Phoenix Village and Township Bank acquired in June 2016) did not meet the return on capital ratio. These subsidiary banks consist of (1) 19 village and township banks that fell short by a significant extent, (2) 1 rural commercial bank and 4 village and township banks that fell short by a moderate extent, and (3) 1 village and township bank that fell short by a slight extent, of the minimum requirement.

Each subsidiary bank reports its return on capital ratios to the CBRC on a quarterly basis. As of September 30, 2016 (the latest quarter end), among the 25 subsidiary banks that did not meet the return on capital ratio requirement as of June 30, 2016, 3 village and township banks had complied with the return on capital ratio requirement.

Capital Adequacy Indicators

Capital Adequacy Ratio

One of the subsidiary banks, the Lingshui Dasheng Village and Township Bank acquired in December 2015 fell short of the minimum capital adequacy ratio requirement by a moderate extent as of December 31, 2015 and June 30, 2016.

Tier 1 Capital Adequacy Ratio

Lingshui Dasheng Village and Township Bank acquired in December 2015 slightly fell short of the minimum tier 1 capital adequacy ratio requirement as of December 31, 2015, and fell short by a moderate extent of the minimum tier 1 capital adequacy ratio requirement as of June 30, 2016.

Core Tier 1 capital Adequacy Ratio

Lingshui Dasheng Village and Township Bank acquired in December 2015 fell short by a moderate extent of the minimum core tier 1 capital adequacy ratio requirement as of June 30, 2016.

As a non-systemically important bank, Lingshui Dasheng Village and Township Bank is not required to meet the capital adequacy ratio, tier 1 capital adequacy ratio and core tier 1 capital adequacy ratio limits until the end of 2016 under Notice Regarding the Arrangement of Transition Period of Implementation of the Administrative Measures for the Capital of Commercial Banks (Provisional) (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).

Each subsidiary bank reports its capital adequacy ratio, tier 1 capital adequacy ratio and core tier 1 capital adequacy ratio to the CBRC on a quarterly basis. As of September 30, 2016 (the latest quarter end), Lingshui Dasheng Village and Township Bank had complied with the capital adequacy ratio, tier 1 capital adequacy ratio and core tier 1 capital adequacy ratio requirements.

Credit Risk Indicators

Lending Limit

Lingshui Dasheng Village and Township Bank acquired in December 2015, slightly exceeded the 10% lending limit for single borrower as of December 31, 2015. Sanya Phoenix Village and Township Bank acquired in June 2016, slightly exceeded the 10% lending limit for single borrower as of June 30, 2016.

As of September 30, 2016 (the latest quarter end), Lingshui Dasheng Village and Township Bank and Sanya Phoenix Village and Township Bank complied with the lending limits for single borrower.

Non-performing Loan Ratio

During the Track Record Period, all of the subsidiary banks complied with the maximum non-performing loan ratio requirement of 5%. The table below sets forth the non-performing loan ratio of each subsidiary bank as of June 30, 2016 under PRC GAAP as of the dates indicated.

	As of December 31,			As of June 30,
	2013	2014	2015	2016
Jilin Dehui Rural Commercial Bank	1.54%	1.13%	1.39%	1.38%
Changbai Mountain Rural Commercial Bank	1.13	2.39	1.92	1.41
Jilin Gongzhuling Rural Commercial Bank	—(1)	—(1)	1.98	1.79
Jilin Chuncheng Rural Commercial Bank	—(2)	—(2)	0.74	0.99
Liaoyuan Rural Commercial Bank	1.81	1.37	2.14	2.14
Jilin Fengman Huimin Village and Township Bank	—(18)	—(18)	0.64	0.81
Changchun Nanguan Huimin Village and Township Bank	—(18)	—(18)	0.69	0.74
Da'an Huimin Village and Township Bank	—(18)	—(18)	0.08	0.09
Qingdao Pingdu Huimin Village and Township Bank	0.20	0.48	0.91	0.84
Qianan Huimin Village and Township Bank	—(18)	0.41	0.01	0.05
Lujiang Huimin Village and Township Bank	0.26	0.44	1.21	0.96
Wuchang Huimin Village and Township Bank	—(18)	0.07	0.31	0.88
Wenan County Huimin Village and Township Bank	—(18)	—(18)	0.41	0.40
Huadian Huimin Village and Township Bank	—(18)	—(18)	0.16	0.17
Anci District Huimin Village and Township Bank	—(18)	—(18)	0.15	0.98
Gaomi Huimin Village and Township Bank	—(18)	1.44	1.16	0.93
Hanshan Huimin Village and Township Bank	0.75	0.48	1.23	1.10
Shuangcheng Huimin Village and Township Bank	0.27	0.87	0.72	0.88
Tongcheng Huimin Village and Township Bank	—(18)	—(18)	0.29	0.74
Guangzhou Huangpu Huimin Village and Township Bank	—(3)	—(18)	—(18)	—(18)
Qingyuan Qingxin Huimin Village and Township Bank	—(4)	—(18)	—(18)	—(18)
Wuhua Huimin Village and Township Bank	—(5)	—(18)	0.17	0.13
Heyang Huimin Village and Township Bank	—(6)(18)	—(18)	—(18)	—(18)
Yun'an Huimin Village and Township Bank	—(7)	—(18)	—(18)	—(18)
Jingmen Dongbao Huimin Village and Township Bank	—(18)	—(18)	2.33	2.36
Songyuan Ningjiang Huimin Village and Township Bank	0.01	0.02	0.05	0.80
Changchun Gaoxin Huimin Village and Township Bank	—(18)	—(18)	—(18)	0.35
Huidong Huimin Village and Township Bank	—(8)	—(8)(18)	—(18)	—(18)
Tianjin Binhai Huimin Village and Township Bank	—(9)	—(18)	—(18)	—(18)
Fuyu Huimin Village and Township Bank	—(10)	—(10)	—(10)(18)	—(18)
Anping Huimin Village and Township Bank	—(11)(18)	—(18)	—(18)	—(18)
Taonan Huimin Village and Township Bank	—(12)	—(12)	—(12)(18)	—(18)
Baicheng Taobei Huimin Village and Township Bank	—(13)	—(13)	—(13)(18)	—(18)
Leizhou Huimin Village and Township Bank	—(14)	—(14)	—(18)	—(18)
Lingshui Dasheng Village and Township Bank	—(15)	—(15)	—(15)(18)	—(18)
Jilin Chuanying Huimin Village and Township Bank	—(16)	—(16)	—(16)	—(18)
Sanya Phoenix Village and Township Bank	—(17)	—(17)	—(17)	3.27%

Notes:

(1) The Bank has controlled and consolidated Jilin Gongzhuling Rural Commercial Bank since October 12, 2015.
(2) The Bank has controlled and consolidated Jilin Chuncheng Rural Commercial Bank since October 12, 2015.
(3) The Bank has controlled and consolidated Guangzhou Huangpu Huimin Village and Township Bank since February 7, 2014.
(4) The Bank has controlled and consolidated Qingyuan Qingxin Huimin Village and Township Bank since January 23, 2014.
(5) The Bank has controlled and consolidated Wuhua Huimin Village and Township Bank since January 13, 2014.
(6) The Bank has controlled and consolidated Heyang Huimin Village and Township Bank since December 16, 2013.
(7) The Bank has controlled and consolidated Yun'an Huimin Village and Township Bank since January 27, 2014.
(8) The Bank has controlled and consolidated Huidong Huimin Village and Township Bank since November 21, 2014.
(9) The Bank has controlled and consolidated Tianjin Binhai Huimin Village and Township Bank since June 11, 2014.
(10) The Bank has controlled and consolidated Fuyu Huimin Village and Township Bank since December 14, 2015.

(11) The Bank has controlled and consolidated Anping Huimin Village and Township Bank since December 24, 2013.
(12) The Bank has controlled and consolidated Taonan Huimin Village and Township Bank since December 11, 2015.
(13) The Bank has controlled and consolidated Baicheng Taobei Huimin Village and Township Bank since November 23, 2015.
(14) The Bank has controlled and consolidated Leizhou Huimin Village and Township Bank since March 25, 2015.
(15) The Bank has controlled and consolidated Lingshui Dasheng Village and Township Bank since December 31, 2015.
(16) The Bank has controlled and consolidated Jilin Chuanying Huimin Village and Township Bank since January 21, 2016.
(17) The Bank has controlled and consolidated Sanya Phoenix Village and Township Bank since June 22, 2016.
(18) The outstanding balance of non-performing loans was nil.

The Core Indicators (Provisional) do not stipulate any penalties for failure to comply with the regulatory ratios. In accordance with the Core Indicators (Provisional), except as otherwise provided by laws, administrative rules and department regulations, failure to meet the regulatory ratios does not constitute direct basis for administrative penalties. During the Track Record Period and as of the Latest Practicable Date, neither the Bank nor any of the subsidiary banks had been notified of administrative or regulatory penalties for failure to meet regulatory indicators set forth in the Core Indicators (Provisional). As confirmed by the relevant regulatory authorities, no investigations, regulatory measures and administrative penalties, including suspension of operation, have been or will be imposed on the Bank or any of the subsidiary banks for failing to meet certain regulatory indicators set forth in the Core Indicators (Provisional) during the Track Record Period. King & Wood Mallesons, the Bank's PRC legal adviser, has advised the Bank that the confirmations were given by competent authorities. The Bank believes that the failure by some of the subsidiary banks to meet regulatory indicators as disclosed above during the Track Record Period was not material to the Bank and the subsidiary banks on a consolidated basis, and that it did not have any material adverse effect on the operations and financial results of the Bank and the subsidiary banks on a consolidated basis during the Track Record Period. See "Risk Factors—Risks Relating to the Group's Business—Substantial legal liability or significant regulatory action could materially and adversely affect the Group's results of operations or financial condition, or cause significant reputational harm and seriously harm the Group's business prospects" for the risks relating to failures to meet regulatory indicators.

The Bank has implemented and plan to continue implementing the following measures to enhance the regulatory ratios of the subsidiary banks (including the rural commercial banks restructured from rural credit cooperatives and a rural cooperative bank acquired and the acquired village and township bank):

- issuing risk alerts to subsidiary banks that fail to meet the regulatory ratio requirements;
- providing strategic guidance, professional training and sharing innovative products and services with subsidiary banks to enhance their competitiveness and profitability;
- bolstering the capital cushion of the subsidiary banks through capital injection; and
- closely supervising subsidiary banks to enhance their core liabilities ratio and liquidity gap ratio by (1) enhancing efforts to market deposit products so as to increase core liabilities, (2) increasing reserve of high liquidity assets, and (3) gradually adjusting the maturity structure of liabilities to increase the proportion of medium- and long-term liabilities.

In addition, the Core Indicators (Provisional) set out guidance on other ratios, including ratios relating to interest rate risk sensitivity, operational risk and loan migration. The CBRC may enforce these ratios as compulsory requirements in the future.

Deposit Insurance Scheme

In accordance with the Deposit Insurance Regulation (存款保險條例) issued by the State Council on February 17, 2015 and became effective on May 1, 2015, all financial institutions in the PRC which accept deposits (apart from the branches of foreign-invested banks) shall be governed by the new deposit insurance system. Upon the failure of a deposit-taking financial institution, each depositor of such failed deposit-taking financial institution shall be entitled to a maximum coverage of RMB500,000 on the deposits with such failed financial institution. All eligible deposits within the limit, including the principal denominated in RMB or foreign currencies and accrued interests, shall be fully protected.

Deposit-taking financial institutions shall pay insurance premiums, including unit premium and risk premium. The premium structure shall be determined by the deposit insurance institutions authorized by the State Council. The premium is payable every six months. The deposit insurance premiums shall be deposited with the PBOC or shall be used to invest in Chinese government bonds, PBOC bills and senior bonds.

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. The Guidelines on Corporate Governance of Commercial Banks (商業銀行公司治理指引) 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.

The 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)) require a commercial bank with a registered capital exceeding RMB1 billion to have at least three independent directors. The Guidelines on the Functioning of Supervisory Board of Commercial Banks (商業銀行監事會工作指引) require the proportion of employees representative supervisors and that of external supervisors to be not 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 to have at least two independent directors and the supervisory board at least two external supervisors. 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)) require commercial banks 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.

According to the Guidance of CBRC on Further Promoting the Healthy Development of Village and Township Banks (中國銀監會關於進一步促進村鎮銀行健康發展的指導意見) issued by CBRC on December 12, 2014, the major bank promoters shall maintain the independent legal person status of village and township banks by preparing memorandum and articles of association, participating in major corporate decisions and appointing managers pursuant to the Company Law and the articles of association. The promoters shall respect and maintain the autonomous operation of village and township banks and shall not manage village and township banks as branches or sub-branches.

Internal Controls

Under the Internal Control Guidelines for Commercial Banks (商業銀行內部控制指引) issued on July 3, 2007 and revised on September 12, 2014 by CBRC, commercial banks are required to establish internal controls to ensure effective risk management for their business activities. Commercial Banks in the PRC are also required to appoint a specific department as internal control management department which shall be responsible for formulating overall planning and organizing the implementation, review and evaluation of the internal control system. In addition, an internal audit department shall also be established to monitor internal controls, review the adequacy and effectiveness of internal controls, report to the board regarding any problem discovered during the process of internal audit and provide guidance on rectifications.

On April 16, 2016, CBRC issued the Guidelines on Internal Audit of Commercial Banks (商業銀行內部審計指引). Under such Guidelines, commercial banks are required to establish an audit committee of the board of directors with at least three members, a majority of whom must be independent directors and the audit committee shall be, in principle, chaired by an independent director. Commercial banks can have one chief auditor or chief audit officer. For banks without chief audit officer, the chairman of the internal audit department shall concurrently serve as the chief audit officer. Each commercial bank shall also set up an independent internal audit department comprising sufficient number of internal auditors who shall, in principle, represent not less than 1% of the total number of employees of the bank.

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 MOF, CBRC, NAO, CSRC and CIRC with effect from 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.

According to the Guidelines on the Corporate Governance of Commercial Banks (商業銀行公司治理指引) promulgated by CBRC on July 19, 2013, commercial banks shall 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. Moreover, the supervisory board is required to perform its supervisory obligations by supervising the 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 CBRC on July 3, 2007 and July 19, 2013, respectively, a PRC commercial bank is required to issue an annual report (including an audited financial report) within four months from 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 information under regulatory requirements. The commercial banks shall disclose information via annual reports, website or other methods to facilitate timely access to the disclosed information by the shareholders and other stakeholders. The listed commercial banks shall also disclose information in compliance with the relevant provisions promulgated by the securities regulatory authority.

Related Party Transactions

The Administrative Measures on Related Party 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 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 also 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.

RISK MANAGEMENT

Since its inception, 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, IT risk management and a supervisory rating system. For the measures in respect of the implementation of Basel Accords, see "—Supervision Over Capital Adequacy—CBRC's Supervision over Capital Adequacy—Basel Accords". CBRC also issued the Core Indicators (Provisional) as a basis of supervising the risk management of PRC commercial banks. 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". CBRC periodically collects data through off-site surveillance to analyze such indicators and evaluate and issue early warnings of the risks on a timely basis.

Operational Risk Management

On March 22, 2005, 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. According to the Circular, commercial banks are required to develop specific internal policies and procedures for the management and control of operational risks. The internal audit department and business operation departments of banks shall carry out independent and special audit and review on their business operations from time to time, and conduct ongoing audit and review on business areas with higher operational risks. In addition, head offices of commercial banks shall assess the implementation and compliance of their internal policies and procedures with respect to the operational risks.

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.

In addition, on May 14, 2007, 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. The guidelines mainly provide the requirements on, 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. Such policies and procedures are required to be submitted to CBRC for filing. If a significant operational risk occurs and the commercial bank fails to adopt effective corrective measures within a specified period, CBRC has the power to take relevant regulatory measures.

Market Risk Management

On December 29, 2004, CBRC promulgated the Guidelines on the Market Risk Management of Commercial Banks (商業銀行市場風險管理指引) with effect from March 1, 2005 to strengthen the market risk management of PRC commercial banks. These guidelines 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 formulate official policies and procedures in writing to manage the 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

On October 20, 2006, CBRC promulgated the Guidelines on Compliance Risk Management of Commercial Banks (商業銀行合規風險管理指引) which 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

The Administrative Measures on the Liquidity Risk of Commercial Banks (Trial) (Zhong Guo Yin Jian Hui Ling [2014] No.2) (商業銀行流動性風險管理辦法(試行))(中國銀監會令2014年第2號), which was issued on January 17, 2014 and amended on September 2, 2015 by CBRC, mainly introduced: (i) the liquidity risk management responsibilities of a commercial bank's board of directors, senior management, board of supervisors and the specialized internal department in charge of liquidity risk management; (ii) the strategy, policy and procedure of liquidity risk management; (iii) the identification, measurement, supervision and control of liquidity risk; and (iv) 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 the end of 2018. According to the Administrative Measures on the Liquidity Risk of Commercial Banks (Trial), 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, liquidity coverage ratio is regulatory indicator for liquidity risk, while the liquidity gap ratio, core debt ratio, loan-to-deposit ratio and liquidity ratio are monitoring reference indicators for liquidity risk.

On June 30, 2014, 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.

On August 29, 2015, the Standing Committee of the NPC promulgated the Decision on Amending the Commercial Banking Law of the PRC (關於修改<中華人民共和國商業銀行法>的決定). According to such decision, with effect from October 1, 2015, the requirement on commercial banks that the loan-to-deposit ratio shall not exceed 75% when applying loans was revoked and relevant provisions on the penalties for non-compliance with the aforementioned loan-to-deposit ratio imposed by the banking regulatory authorities of the State Council were also abolished.

In September 2015, CBRC amended the Administrative Measures on the Liquidity Risk of Commercial Banks (Trial), which provide that the loan-to-deposit ratio shall cease to be the regulatory indicator of liquidity risk and the requirement that the loan-to-deposit ratio must not exceed 75% shall be cancelled. The revised measures came into effect on October 1, 2015.

IT Risk Management

On March 3, 2009, CBRC issued the Guidelines on IT Risk Management in Commercial Banks. The guidelines have explicit requirements on IT governance, IT risk management, information security, information system development, test and maintenance, IT operation, business continuity management, outsourcing, internal and external audit. It also provides that the objectives of IT risk management shall be the identification, measurement, monitoring and control IT risks of commercial banks by setting up effective measures to enhance safe, continual and steady operation of commercial banks, to facilitate business innovation, to promote the use of information technology and to improve their core competitiveness and sustainable development.

On February 16, 2013, CBRC issued Regulatory Guidelines for Information Technology Outsourcing Risk of Banking Institutions (銀行業金融機構信息科技外包風險監管指引) to further regulate the information technology outsourcing activities of banking institutions, so as to reduce the information technology outsourcing risk.

On September 3, 2014, CBRC issued the Guiding Opinions on the Use of Secure and Controllable Technology by Banking Institutions to Strengthen Internet Security and Information System Construction (關於應用安全可控信息技術加強銀行業網絡安全和信息化建設的指導意見). The Opinions require banking institutions to (i) improve their information technology governance structure, (ii) strengthen information system structure, (iii) prioritize the use of secure and controllable technology, (iv) promote the independent development capability of information technology, (v) actively participate in the research and development of secure and controllable technology, and (vi) strengthen intellectual property rights protection.

Management of Other Risks

In addition to the above, 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) and 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 CBRC, General Office of MOF and General Office of PBOC 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), pursuant to which a deposit deviation indicator is set up to prevent banks from "scrambling to meet regulatory deposit level". Deposit deviation ratios at the end of each month shall not exceed 3%. The deposit deviation ratio at the end of month = ("each deposit on the last day of the end of month" – "daily average deposit of the month") / "average daily deposit of the month" x 100%.

Supervisory Rating System

All the PRC joint-stock commercial banks are subject to evaluation by CBRC based on a provisional supervisory rating system. Under such system, the capital adequacy, asset quality, management quality, profitability, liquidity and exposure to market risk of the joint-stock commercial banks are evaluated and scored by 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

According to the Measures for the Implementation of Administrative Licensing Matters Concerning Rural Small and Medium Financial Institutions (農村中小金融機構行政許可事項實施辦法) promulgated by the CBRC on June 27, 2008 and amended on June 5, 2015, an application of a rural commercial bank for modifying the shareholders that hold 10% or more of its total amount of capital or shares, or an application of an overseas financial institution for making investments or buying shares shall be handled and decided by branches of the CBRC or local offices under the CBRC and then reported to the CBRC. An application of a rural commercial bank for modifying the shareholders that hold more than 5% but less than 10% of its total amount of capital or shares shall be handled and decided by branches of the CBRC or local offices under the CBRC. An application of a rural commercial bank for modifying the shareholders that hold more than 1% but less than 5% of its total amount of capital or shares shall be reported to the branches of the CBRC or local offices under the CBRC.

According to 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 fulfilling certain conditions may invest in or hold shares of PRC commercial banks upon approval of the CBRC. However, no single foreign financial institution may own 20% or more of the equity interest of such a bank. Moreover, if foreign investment in 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.

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 he or she or it wishes to pledge his or her or 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 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質押管理的通知) (the "Notice"), 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.

The Notice provides that if commercial banks are unable to satisfy the regulatory requirements, the PRC regulatory authorities may request such commercial banks to formulate rectification plans and may take corresponding regulatory and administrative measures if necessary. However, the Notice has not specifically set out the details of relevant regulatory and administrative measures.

In order to satisfy the requirements under the Notice, the Bank has amended its articles of association by adding voting restriction provisions which will be subject to the approval of the CBRC Jilin Bureau and become effective upon the listing of the H Shares.

Anti-money Laundering Regulation

The PRC Anti-Money Laundering Law (中華人民共和國反洗錢法) sets out the responsibilities of the relevant financial regulatory authorities regarding anti-money laundering, including the formulation of the anti-money laundering rules and regulations for financial institutions. In accordance with the Anti-Money Laundering Regulations for Financial Institutions (金融機構反洗錢規定), PRC commercial banks are required to establish a specialized department or designate an internal 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), upon the detection of any suspicious transactions or transactions involving large amounts, commercial banks are required to report the relevant transactions to the PBOC or the SAFE (where applicable). Where necessary and pursuant to appropriate judicial proceedings, commercial banks are required to cooperate with government authorities in preventing money laundering activities and in freezing assets. Furthermore, 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), commercial banks are required to set up a system to record the identities of all customers and the information relating to their deposit, settlement and other transactions in relevant banks. The PBOC supervises and conducts on-site examinations of commercial banks' compliance with the anti-money laundering laws and regulations, and may impose penalties for any violations thereof in accordance with the PRC Anti-Money Laundering Law.

In accordance with the Measures for the Supervision and Administration of the Anti-money Laundering Operations by Financial Institutions (for Trial Implementation) (金融機構反洗錢監督管理辦法(試行)) which was promulgated by the PBOC on November 15, 2014, the PBOC is required to establish a regular anti-money laundering information reporting system for financial institutions and financial institutions are required to report anti-money laundering work related information to PBOC and actively cooperate with PBOC and its branches in supervisory inspections.

OTHER REQUIREMENTS

Company Name

According to The Provisions on Administration of Enterprise Name Registration (企業名稱登記管理規定) promulgated by the State Council on November 9, 2012 and became effective on January 1, 2013, a company name shall have the following elements in the following order: business name, industries or operating features, and organizational form. The first part of a company name shall be the name of the place of the company, e.g. the name of province (including autonomous region and municipal), city (and county) and prefecture (and district of a city).

Use of Funds

Under the PRC Commercial Banking Law, commercial banks are not permitted to engage in trust investment or securities activities, or invest in real property other than for their own use, or invest in non-banking financial institutions and enterprises, unless otherwise approved by the relevant government authorities or otherwise stipulated by relevant laws and regulations. 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;
- interbank 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 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 on the Official Operation of Off-site Supervision 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 CBRC, banking financial institutions are required to regularly submit to the banking regulatory authorities statements regarding their basic financial information, credit risk, liquidity risk, capital adequacy ratio and such other information as required under such notice. The statements that the Bank and each subsidiary bank are required to submit to the regulatory authorities consist of (1) the statistical table of balance sheet items, the statement of the allowance for the impairment loss of assets, the liquidity ratio statement and other similar information required to be submitted on a monthly basis, (2) the income statement, the capital adequacy ratio summary statement, the statistical table of the liquidity horizon gap and other similar information required to be submitted on a quarterly basis, (3) the interest rate repricing risk statements required to be submitted on a semi-annual basis, and (4) the statement of profit distribution and the table of credit quality migration and other similar information required to be submitted on an annual basis.

During the Track Record Period, the Bank and each subsidiary bank complied with all periodic reporting requirements described above. King & Wood Mallesons, the Bank's PRC legal adviser, has advised the Bank that there are no PRC laws that require more frequent reporting of the statements referred to above than on a monthly basis.

Although the Bank and each subsidiary bank will continue to submit such periodic reports to relevant regulatory authorities, 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, the Bank does not plan to disclose the information contained in the reports by way of announcement.

Pursuant to the Guidelines on the Management and Regulation of Consolidated Financial Statements of Commercial Banks promulgated by CBRC, the scope of account consolidation of commercial banks shall be determined in accordance with the prevailing PRC accounting standards for enterprises, while the scope of capital regulations shall be determined in accordance with capital regulations and other relevant regulatory requirements.

Pursuant to the Capital Administrative Measures, when calculating the consolidated capital adequacy ratio, a commercial bank shall consolidate the following domestic and overseas financial institution investees: (i) a financial institution investee in which the commercial bank directly or indirectly holds more than 50% of voting rights; (ii) a financial institution investee in which the commercial bank holds 50% or less of voting rights but which falls within any of the following circumstances: the commercial bank holds more than 50% of voting rights in such financial institution in accordance with an agreement with other investors; the commercial bank has the power, as vested by the articles of association or any agreement, to decide the financial and operating policies of such financial institution; the commercial bank has the power to appoint or remove any members of the board of directors or a similar power body of such financial institution; or the commercial bank holds a majority of voting rights within the board of directors or any other similar power body of such financial institution investee; and (iii) a financial institution investee which is actually controlled by the commercial bank as proved by other evidences. "Control" means that a company is able to decide the financial and operating policies of another company and gain profits from the business operations of the latter.

REGULATORY AND SHAREHOLDER'S APPROVALS

The Bank has obtained the Shareholders' approval for the proposed listing. See "Appendix VII—Statutory and General Information—A. Further Information about the Bank—4. Shareholders' Resolutions" in this prospectus.

The Bank also obtained approvals from CBRC Jilin Bureau and CSRC for the Global Offering and the application to list the H Shares on the Hong Kong Stock Exchange, on April 11, 2016 and August 17, 2016, respectively.

THE U.S. FOREIGN ACCOUNT TAX COMPLIANCE ACT ("FATCA")

U.S. Treasury Regulations commonly referred to as FATCA target non-compliance by U.S. taxpayers using foreign accounts. FATCA seeks to obtain information on accounts held by U.S. taxpayers in other countries by requiring FFIs to report to the U.S. Internal Revenue Service ("IRS") information about financial accounts held by U.S. taxpayers, or by foreign entities in which

U.S. taxpayers hold a minimum ownership interest. Governments have the option of permitting their FFIs to enter into agreements directly with the IRS to comply with FATCA under U.S. Treasury Regulations or to implement FATCA by entering into one of two alternative model IGAs with the United States.

The governments of the United States and Hong Kong have entered into a Model 2 IGA. Under this agreement, Hong Kong will direct and legally enable FFIs in Hong Kong to register with the IRS and report the information required by FATCA about consenting U.S. accounts directly to the IRS. This requirement is supplemented by government-to-government exchange of information regarding certain pre-existing non-consenting accounts on request.

The governments of the United States and the PRC have in substance agreed to a Model 1 IGA. Under a Model 1 IGA, FFIs will report the information required under FATCA about U.S. accounts to their home governments, which in turn will report the information to the IRS. These agreements are reciprocal, meaning that the United States will also provide similar tax information to these governments regarding individuals and entities from their jurisdictions with accounts in the United States.

A withholding tax of 30% may be imposed under FATCA on certain payments made to the Bank and the subsidiary banks that are treated as FFIs, including payments of United States source interest and dividends, as well as the gross proceeds of the disposition of assets that can produce United States source interest or dividends, unless the Bank and the subsidiary banks that are treated as FFIs (a) enter into an agreement with the United States Treasury to collect and provide to the U.S. tax authorities information regarding United States persons (or foreign entities in which United States persons hold a minimum ownership interest) that directly or indirectly maintain accounts with the FFI (including, in certain circumstances, owning equity or debt issued by the FFI), or (b) comply with legislation that implemented an IGA between the applicable FFI's jurisdiction and the United States. The Bank intends to comply with FATCA, which may affect how the Bank structures its operations and conduct its business.