The following discussion and analysis should be read in conjunction with the Group's consolidated financial statements and accompanying notes included in this prospectus. Capital adequacy ratios discussed in this section are calculated in accordance with applicable CBRC guidelines and are based on PRC GAAP financial information. The capital adequacy ratios discussed in this section are not part of the Group's consolidated financial statements and have not been audited.

The following discussion and analysis contain forward-looking statements about events that involve risks and uncertainties. The Group's actual results may differ from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth in "Forward-looking Statements" and "Risk Factors".

OVERVIEW

The Group's primary business is commercial banking, consisting of corporate banking, retail banking and treasury operations. In corporate banking, the Group offers corporate loans, corporate deposits, bill discounting, fee- and commission-based services, and other products and services. In retail banking, the Group offers retail loans, retail deposits, bank cards, personal wealth management services and other diverse products and services. The Group's treasury operations primarily include inter-bank money market transactions and investment and trading activities.

FACTORS AFFECTING THE GROUP'S RESULTS OF OPERATIONS

The Bank believes that the Group's business, financial condition and results of operations are primarily affected by the following factors:

Business Environment in the PRC and Jilin Province

The Group derives most of its income from operations in Jilin province, China. Accordingly, economic conditions in the PRC and, in particular, in Jilin province, directly impact its results of operations and financial condition.

The economies of the PRC and Jilin have maintained steady growth in recent years. Based on data from the NBSC, China's GDP increased from RMB40,890 billion in 2010 to RMB67,671 billion in 2015, representing a CAGR of 10.6%. Based on data from the Bureau of Statistics of Jilin Province, GDP of Jilin province increased from RMB858 billion to RMB1,427 billion, representing a CAGR of 10.7%.

Economic growth in the PRC and Jilin has led to increasing corporate activities and significant increases in personal wealth, which has driven the significant growth of the banking industry in these locations. From December 31, 2010 to December 31, 2015, total RMB-denominated loans and RMB-denominated deposits in the PRC banking industry increased at a CAGR of 14.4% and 13.6%, respectively, according to the PBOC. During the same period, total RMB-denominated loans and RMB-denominated deposits in the Jilin banking industry increased at a CAGR of 16.1% and 14.0%, respectively, according to the PBOC.

China has reportedly entered a "New Normal" stage of economic development when GDP growth is slower as it shifts its focus from generating high GDP growth to reforming and improving its economic structure. The slower economic growth may adversely affect the business, results of operations and financial condition of PRC commercial banks.

Interest Rate Environment

Net interest income represented 80.2%, 79.1%, 79.0%, 84.7% and 77.8% of the Group's total operating income in 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016. Net interest income is affected by many factors beyond the Group's control, such as the benchmark interest rates set by the PBOC, regulations governing the PRC banking and financial industries, domestic and international economic and political conditions, and competition among banks.

In recent years, the PRC government has gradually liberalized interest rates. For example, the PBOC lifted restrictions on inter-bank market interest rates, bond market interest rates and interest rates on foreign currency deposits, and removed the interest rate floor on RMB-denominated loans and removed the interest rate cap on RMB-denominated deposits. In October 2015, the PBOC further lowered the benchmark interest rates for RMB-denominated deposits and loans to 1.50% and 4.35%, respectively. The PBOC may further adjust the interest rate mechanism in the future, which may materially affect the Group's business, financial condition and results of operations.

Competition

The Group faces intense competition in all aspects of its business. The Group competes primarily based on financial strength, risk management, asset quality, distribution network, customer base, brand recognition, product and service quality and pricing. The Group competes principally with the local branches of large commercial banks and regional commercial banks in Jilin province. The Group also faces competition from non-banking financial institutions, such as securities firms, fund management companies and insurance companies. The Group expects competition to continue to intensify in the future. Increased competition or an adverse change in the Group's competitive position could lead to a reduction of business and a corresponding decrease in its revenues and profits. Competition could also raise the cost of hiring and retaining the talents the Group needs to effectively operate its business.

Regulatory Environment

The PRC banking industry is highly regulated. The Group's business, financial condition and results of operations have been, and will continue to be, materially affected by changes in policies, laws and regulations relating to the PRC banking industry, including restrictions on the scope of business activities, control of chargeable interests and fees and limits on lending to borrowers in specific industries or in respect of specific loan products.

PRC commercial banks are mainly regulated by the CBRC and the PBOC. The CBRC regulates the disclosure requirements, corporate governance, risk management, capital adequacy and internal controls of PRC commercial banks. The PBOC formulates interest rate policies, sets the statutory deposit reserve ratio, extends refinancing to commercial banks, accepts rediscounted bills from commercial banks and conducts open market operations. PRC commercial banks are also subject to supervision and regulation by other regulatory bodies in the PRC, such as the MOF, the SAFE, the CSRC and the CIRC.

In recent years, the CBRC and the PBOC have gradually liberalized restrictions on fee- and commission-based banking services that PRC commercial banks may provide, such as investment banking services, the sale of financial products to individual customers and other wealth management services. Any new requirements imposed by the CBRC and the PBOC as well as other governmental authorities may affect the Group's business, financial condition and results of operations.

Development of China's Capital Markets and Internet-based Financing Service Platforms

China's recent initiatives to develop a multi-layered capital market by encouraging enterprises to borrow through bond issuances may affect the core lending businesses of PRC banks. As more corporate borrowers issue debt securities at lower costs to meet their financing needs, demand for bank loans may decrease. On the other hand, the development of China's capital markets may allow the Group to expand its fee- and commission-based business, and broaden the scope of securities the Group may invest in.

China's traditional banking institutions are also facing new challenges and opportunities from innovations in financial products and technology, such as online wealth management products, third-party online payment platforms and Internet-based financing service platforms. These innovations in products and technologies may affect the competitive landscape of the PRC banking industry and may impact the business, results of operations and financial condition of PRC banks.

Mergers and Acquisitions

The Bank has expanded, and will continue to expand its business through mergers and acquisitions to take advantage of market opportunities. For example, as of June 30, 2016, the Bank controlled and consolidated five rural commercial banks that were restructured from rural credit cooperatives and a rural cooperative bank it acquired, and it had also established thirty village and township banks and acquired two village and township banks, which led to a significant increase in the Group's assets and revenue. See "Business—Rural Commercial Banks and Village and Township Banks". The success of the Bank's strategy to expand through mergers and acquisitions is subject to a number of variables, such as (i) the ability to identify suitable targets and complete acquisitions at commercially viable terms, (ii) the ability to obtain required regulatory approvals, and (iii) the ability to integrate the acquired businesses and realize the expected synergies. In addition, the Group's expansion plans may demand significant effort on the part of its management, which may divert their attention from its core business activities. The Group's non-performing loans could also increase due to its merges and acquisitions activities. Further, impairment charges on goodwill from the acquisitions could negatively affect the Group's financial results.

KEY FINANCIAL INDICATORS

The Group's Financial Indicators

The following table sets forth a summary of the Group's key financial indicators, (on a consolidated or group basis) based on IFRS for the periods indicated.

	Regulatory requirement	Year ended December 31,			Six months ended June 30,	
		2013	2014	2015	2015	2016
					(unaudited)	
Profitability indicators						
Return on assets(1)(16)	≥ 0.6%	1.30%	1.80%	1.25%	1.24%	1.37%
Return on capital(2)(16)	≥11.0%	14.72%	19.67%	14.24%	12.95%	16.98%
Net interest spread(3)(16)	–	3.24%	3.23%	2.79%	2.85%	2.41%
Net interest margin(4)(16)	–	3.36%	3.40%	3.01%	3.00%	2.56%
Net fee and commission income to operating income ratio(5)	–	9.37%	9.28%	5.22%	4.82%	9.83%
Cost-to-income ratio(6)	≤45.0%	44.34%	41.11%	43.54%	41.03%	37.03%

	Regulatory requirement	As of December 31,			As of June 30,
		2013	2014	2015	2016
Capital adequacy indicators					
Core tier-one capital adequacy ratio(7)	≥ 6.7%(14)	12.20%	13.82%	12.49%	12.08%
Tier-one capital adequacy ratio(8)	≥ 7.7%(14)	12.20%	13.82%	12.49%	12.08%
Capital adequacy ratio(9)	≥ 9.7%(14)	15.26%	16.02%	14.76%	14.28%
Shareholders' equity to total assets ratio	—	8.48%	9.57%	8.35%	7.79%
Assets quality indicators					
Non-performing loan ratio(10)	≤ 5%	1.26%	1.19%	1.42%	1.57%
Provision coverage ratio(11)	≥150%(14)	220.09%	233.40%	206.86%	198.18%
Provision to total loan ratio(12)	≥ 2.5%(14)	2.77%	2.78%	2.93%	3.12%
Other indicators(13)					
Loan to deposit ratio	≤ 75%(15)	59.50%	57.50%	51.32%	49.76%

Notes:

(1) Calculated by dividing the net profit for a period by the average balance of total assets at the beginning and the end of that period.
(2) Calculated by dividing the net profit for a period by the average balance of total equity at the beginning and at the end of that period.
(3) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.
(4) Calculated by dividing net interest income by average interest-earning assets.
(5) Calculated by dividing net fee and commission income by operating income.
(6) Calculated by dividing total operating expenses (net of business tax and surcharges) by operating income.
(7) Core tier-one capital adequacy ratio = (core tier-one capital - corresponding capital deductions) / risk-weighted assets.
(8) Tier-one capital adequacy ratio = (tier-one capital - corresponding capital deductions) / risk-weighted assets.
(9) Capital adequacy ratio = (total capital - corresponding capital deductions) / risk-weighted assets.
(10) Non-performing loan ratio = loans and advances to non-performing customers / total loans and advances to customers.
(11) Provision coverage ratio = provision for impairment losses on loans / total loans and advances to non-performing customers.
(12) Provision to total loan ratio = provision for impairment losses on loans / total loans and advances to customers.
(13) These indicators refer to ratios the Group reports to the CBRC and calculated in accordance with PRC GAAP and relative requirements of the CBRC regarding the financial data.
(14) Indicates requirement to be met by the end of 2016.
(15) According to the revised PRC Commercial Banking Law which became effective on October 1, 2015, loan to deposit ratio is no longer applicable to the PRC Commercial Banks as a regulatory ratio.
(16) Ratios for the six months ended June 30, 2015 and 2016 are calculated on an annualized basis.

Return on assets (on a consolidated or group basis) increased from 1.24% in the six months ended June 30, 2015 to 1.37% in the same period of 2016, primarily attributable to the Group's enhanced profitability. Return on assets (on a consolidated or group basis) decreased from 1.80% in 2014 to 1.25% in 2015, primarily because the growth of total assets outpaced the increase in net profits due to the narrowing of net interest spread. Return on assets (on a consolidated or group basis) increased from 1.30% in 2013 to 1.80% in 2014, primarily attributable to the Group's enhanced profitability.

Return on capital (on a consolidated or group basis) increased from 12.95% in the six months ended June 30, 2015 to 16.98% in the same period of 2016, primarily attributable to the Group's enhanced profitability. Return on capital (on a consolidated or group basis) decreased from 19.67% in 2014 to 14.24% in 2015, primarily due to an increase in share capital reflecting the Bank's issuance of shares to existing shareholders in 2015. Return on capital (on a consolidated or group basis) increased from 14.72% in 2013 to 19.67% in 2014, primarily attributable to the Group's enhanced profitability.

See "—Results of Operations—Net Interest Spread and Net Interest Margin" for an analysis of the fluctuations in net interest spread and net interest margin.

See "—Capital Resources—Capital Adequacy" for an analysis of the fluctuations in capital adequacy ratio.

For the analysis of changes in the Group's asset quality indicators, see "Assets and Liabilities—Assets—Asset Quality of the Group's Loan Portfolio".

Financial Indicators of the Subsidiary Banks

Overview

During the Track Record Period, some of the subsidiary banks failed to meet the cost-to-income ratio, return on assets ratio and return on capital ratio, and one subsidiary bank namely Lingshui Dasheng Village and Township Bank had not meet the capital adequacy ratio and tier-one capital adequacy ratio as of December 31, 2015 and June 30, 2016, and had not met the core tier-one capital adequacy ratio as of June 30, 2016. See "Supervision and Regulation—Other Operational and Risk Management Ratios—Regulatory Indicators Compliance by the Subsidiary Banks" for details.

See "Supervision and Regulation—Other Operational and Risk Management Ratios—Regulatory Indications Compliance by the Subsidiary Banks—Credit Risk Indicators—Non-performing Loan Ratio" for the non-performing loan ratios of each subsidiary banks.

Some of the subsidiary banks have yet to meet the provision coverage ratio and provision to total loan ratio. As non-systemically importantly banks, these subsidiary banks are not required to meet the provision coverage ratio and provision to total loan ratio until the end of 2016 under the Administrative Measures for Loan Loss Allowance of Commercial Banks (商業銀行貸款損失準備管理辦法). See "Supervision and Regulation—Loan Classification, Allowances and Write-offs—Loan Loss Allowance" for details. At an on-going measure, these subsidiary banks will enhance efforts to recover non-performing loans and increase provisions for impairment losses on loans to meet the regulatory requirements.

During the Track Record Period, some of the subsidiary banks failed to meet the loan to deposit ratio. This ratio is no longer applicable to PRC commercial banks as a regulatory ratio under the revised PRC Commercial Banking Law which became effective on October 1, 2015.

Key Financial Indicators of Top Five Subsidiary Banks

The following tables set forth a summary of the financial indicators based on IFRS of top five subsidiary banks by operating income for the periods indicated or by total assets as of the dates indicated.

	Year ended December 31, 2013						As of December 31, 2013		
	Return on assets(1)(10)	Return on capital(2)(10)	Net interest spread(3)(10)	Net interest margin(4)(10)	Net fee and commission income to operating income ratio(5)	Cost-to-income ratio(6)	Non-performing loan ratio(7)	Provision coverage ratio(8)(14)	Provision to total loan ratio(9)(15)
Liaoyuan Rural Commercial Bank	1.38%	26.55%	2.77%	2.91%	0.44%	56.84%(17)	1.89%	161.88%	3.06%
Changbai Mountain Rural Commercial Bank	1.85%	24.32%	3.70%	3.88%	0.43%	45.29%(17)	1.13%	300.05%	3.40%
Changchun Nanguan Huimin Village and Township Bank	0.64%	16.33%	3.47%	3.60%	2.91%	58.16%(17)	—(12)	—(12)	1.50%
Songyuan Ningjiang Huimin Village and Township Bank	0.62%	12.59%	4.69%	4.73%	0.06%	66.35%(17)	0.01%	10,522.45%	1.50%
Lujiang Huimin Village and Township Bank	1.35%	18.59%	5.37%	5.44%	(0.36)%	48.97%(17)	0.26%	944.74%	2.50%
Jilin Dehui Rural Commercial Bank	—(11)	—(11)	—(11)	—(11)	—(11)	—(11)	2.90%	94.61%	2.75%

	Year ended December 31, 2014						As of December 31, 2014		
	Return on assets(1)(10)	Return on capital(2)(10)	Net interest spread(3)(10)	Net interest margin(4)(10)	Net fee and commission income to operating income ratio(5)	Cost-to-income ratio(6)	Non-performing loan ratio(7)	Provision coverage ratio(8)(14)	Provision to total loan ratio(9)(15)
Jilin Dehui Rural Commercial Bank	2.41%	25.36%	4.07%	4.32%	(0.05)%	31.11%	2.45%	108.84%	2.67%
Liaoyuan Rural Commercial Bank	2.37%	42.20%	3.17%	3.27%	0.22%	36.35%	2.02%	125.40%	2.53%
Changbai Mountain Rural Commercial Bank	2.53%	33.60%	3.33%	3.52%	3.21%	37.03%	3.89%	121.62%	4.74%
Changchun Nanguan Huimin Village and Township Bank	1.00%	18.88%	3.93%	4.07%	3.86%	55.58%(17)	0.03%	6,889.68%	1.90%
Haikou United Rural Commercial Bank	0.40%(18)	3.56%(19)	1.37%	2.38%	11.69%	68.38%(17)	—(12)	—(12)	1.84%
Jilin Fengman Huimin Village and Township Bank	0.60%	9.51%(19)	2.37%	2.96%	0.04%	55.73%(17)	—(12)	—(12)	2.50%
Jilin Shulan Rural Commercial Bank	—(13)	—(13)	—(13)	—(13)	—(13)	—(13)	1.53%	377.75%	5.77%

	Year ended December 31, 2015						As of December 31, 2015		
	Return on assets(1)(10)	Return on capital(2)(10)	Net interest spread(3)(10)	Net interest margin(4)(10)	Net fee and commission income to operating income ratio(5)	Cost-to-income ratio(6)	Non-performing loan ratio(7)	Provision coverage ratio(8)(14)	Provision to total loan ratio(9)(15)
Jilin Dehui Rural Commercial Bank	1.90%	20.35%	3.84%	4.02%	2.36%	34.68%	1.89%	155.19%	2.93%
Liaoyuan Rural Commercial Bank	1.76%	22.97%	4.01%	4.11%	1.99%	44.95%	2.15%	188.02%	4.04%
Changbai Mountain Rural Commercial Bank	2.41%	34.55%	4.21%	4.38%	7.03%	39.10%	2.26%	261.84%	5.91%
Jilin Gongzhuling Rural Commercial Bank	1.60%	20.69%	3.88%	4.05%	3.42%	33.85%	2.03%	190.15%	3.85%
Jilin Fengman Huimin Village and Township Bank	0.67%	15.95%	2.46%	3.95%	8.08%	47.09%(17)	0.64%	393.52%	2.50%
Jilin Chuncheng Rural Commercial Bank	0.62%	2.54%(19)	2.79%	3.20%	7.16%	69.68%(17)	0.74%	687.82%	5.06%

	Six months ended June 30, 2015					
	Return on assets(1)(10)	Return on capital(2)(10)	Net interest spread(3)(10)	Net interest margin(4)(10)	Net fee and commission income to operating income ratio(5)	Cost-to-income ratio(6)
	(unaudited)					
Jilin Dehui Rural Commercial Bank	1.08%	12.20%	3.13%	3.33%	3.38%	35.58%
Changbai Mountain Rural Commercial Bank	3.81%	50.09%	4.08%	4.27%	4.70%	27.49%
Liaoyuan Rural Commercial Bank	1.26%	16.49%	3.61%	3.80%	0.50%	42.36%
Jilin Shulan Rural Commercial Bank	0.62%	5.73%(19)(20)	1.89%	2.07%	1.91%	65.29%(17)(20)
Jilin Fengman Huimin Village and Township Bank	0.44%(18)	6.67%(19)	4.22%	4.31%	0.09%	35.84%

	Six months ended June 30, 2016						As of June 30, 2016		
	Return on assets(1)(10)	Return on capital(2)(10)	Net interest spread(3)(10)	Net interest margin(4)(10)	Net fee and commission income to operating income ratio(5)	Cost-to-income ratio(6)	Non-performing loan ratio(7)	Provision coverage ratio(8)(14)	Provision to total loan ratio(9)(15)
Jilin Gongzhuling Rural Commercial Bank	1.57%	21.11%	3.54%	3.69%	16.07%	31.84%	1.93%	210.19%	4.05%
Jilin Dehui Rural Commercial Bank	1.37%	18.91%	2.08%	2.21%	9.46%	26.20%	2.84%	125.08%(16)	3.56%
Jilin Fengman Huimin Village and Township Bank	1.58%	29.33%	3.47%	3.57%	27.16%	38.14%	2.56%	177.32%	4.55%
Liaoyuan Rural Commercial Bank	1.73%	23.78%	3.46%	3.49%	0.55%	34.05%	2.20%	199.16%	4.39%
Changbai Mountain Rural Commercial Bank	2.38%	19.54%	3.40%	3.72%	1.57%	27.47%	1.41%	358.58%	5.06%
Jilin Chuncheng Rural Commercial Bank	1.16%	7.93%(19)	1.67%	2.02%	17.56%	35.60%	0.99%	300.69%	2.99%

Notes:

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

(2) Calculated by dividing the net profit for a period by the average balance of total equity at the beginning and at the end of that period.

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

(4) Calculated by dividing net interest income by average interest-earning assets.

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

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

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

(8) Provision coverage ratio = provision for impairment losses on loans / total loans and advances to non-performing customers.

(9) Provision to total loan ratio = provision for impairment losses on loans / total loans and advances to customers.

(10) Ratios for the six months ended June 30, 2015 and 2016 are calculated on an annualized basis.

(11) The Bank has controlled and consolidated Jilin Dehui Rural Commercial Bank since December 30, 2013.

(12) The outstanding balance of non-performing loans was nil.

(13) The Bank controlled and consolidated Jilin Shulan Rural Commercial Bank from December 31, 2014 to December 10, 2015.

(14) The bank is not required to meet the regulatory limit of 150% until the end of 2016 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).

(15) The bank is not required to meet the regulatory limit of 2.5% until the end of 2016 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).

(16) The bank's provision coverage ratio is below the limit of 150% set forth in the Administrative Measures for Loan Loss Allowance of Commercial Banks. The bank plans to increase the ratio by enhancing efforts in the recovery of non-performing loans and increasing provisions for impairment losses on loans.

(17) The bank's cost-to-income ratio exceeds the limit of 45% set forth in the Core Indicators (Provisional) , primarily because the bank is in an early stage of development and its operational efficiency has further room for improvement.

(18) The return on assets ratio is below the limit of 0.6% set forth in the Core Indicators (Provisional), primarily because the bank is in an early stage of development and its operational efficiency has further room for improvement.
(19) The return on capital ratio is below the limit of 11% set forth in the Core Indicators (Provisional), primarily because the bank is in an early stage of development and its operational efficiency has further room for improvement.
(20) On December 10, 2015, the Bank sold all of its interest in Jilin Shulan Rural Commercial Bank to an independent third party.

RESULTS OF OPERATIONS

The table below sets forth the Group's consolidated statements of profit or loss data for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
			(in millions of RMB)		
Interest income	2,580.5	4,679.7	6,080.6	2,629.3	3,904.2
Interest expenses	(1,121.9)	(2,113.3)	(2,708.4)	(1,217.9)	(1,841.8)
Net interest income	**1,458.6**	**2,566.4**	**3,372.2**	**1,411.4**	**2,062.4**
Fee and commission income	180.9	318.8	241.7	85.7	274.2
Fee and commission expenses	(10.5)	(17.6)	(19.0)	(5.3)	(13.5)
Net fee and commission income	**170.4**	**301.2**	**222.7**	**80.4**	**260.7**
Net gains arising from investment securities	79.1	161.3	344.5	30.1	167.0
Dividend income	30.4	42.6	69.3	69.3	106.5
Net trading gains	57.9	32.3	131.9	64.6	45.3
Gain on disposal of a subsidiary	—	—	12.8	—	—
Net Exchange (losses)/gains	(0.4)	6.3	6.5	3.4	3.1
Other operating income	21.9	135.6	108.0	7.2	5.8
Operating income	**1,817.9**	**3,245.7**	**4,267.9**	**1,666.4**	**2,650.8**
Operating expenses	(878.1)	(1,482.1)	(2,044.1)	(756.9)	(1,094.6)
Impairment losses on assets	(216.6)	(185.7)	(350.1)	(207.2)	(245.3)
Operating profit	**723.2**	**1,577.9**	**1,873.7**	**702.3**	**1,310.9**
Share of profits of associates	—	—	2.2	0.6	3.9
Profit before tax	**723.2**	**1,577.9**	**1,875.9**	**702.9**	**1,314.8**
Income tax expense	(180.7)	(347.0)	(473.7)	(148.6)	(282.0)
Profit for the year/period	**542.5**	**1,230.9**	**1,402.2**	**554.3**	**1,032.8**
Profit for the year/period attributable to:					
—Owners of the Bank	534.6	1,103.2	1,215.8	508.7	866.6
—Non-controlling interests	7.9	127.7	186.4	45.6	166.2
Profit for the year/period	**542.5**	**1,230.9**	**1,402.2**	**554.3**	**1,032.8**

Six Months ended June 30, 2016 Compared to the Same Period in 2015

Net Interest Income

Net interest income is the largest component of operating income, representing 84.7% and 77.8% of operating income in the six months ended June 30, 2015 and 2016, respectively.

The table below sets forth the average balances of the Group's interest-earning assets and interest-bearing liabilities, the related interest income or expenses and the average yield or average cost for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities are the average of the daily balances.

	Six months ended June 30,					
	2015			2016		
	Average balance(1)	Interest income	Average yield(2)	Average balance(1)	Interest income	Average yield(2)
	(unaudited) (in millions of RMB, except percentages)					
Interest-earning assets						
Loans and advances to customers	42,315.8	1,563.6	7.39%	52,394.9	1,795.3	6.85%
Investment securities and other financial assets(3)	16,224.3	448.2	5.53	53,736.9	1,262.1	4.70
Deposits with banks and other financial institutions	11,623.7	233.1	4.01	27,156.2	508.2	3.74
Financial assets held under resale agreements	13,671.4	284.7	4.16	14,931.4	232.0	3.11
Deposits with the central bank(4)	9,142.3	71.3	1.56	11,834.3	88.8	1.50
Placements with banks and other financial institutions	977.3	28.4	5.81	1,051.7	17.8	3.38
Total interest-earning assets	**93,954.8**	**2,629.3**	**5.60%**	**161,105.4**	**3,904.2**	**4.85%**

	Six months ended June 30,					
	2015			2016		
	Average balance(1)	Interest expense	Average cost(2)	Average balance(1)	Interest expense	Average cost(2)
	(unaudited) (in millions of RMB, except percentages)					
Interest-bearing liabilities						
Deposits from customers	62,584.0	736.5	2.35%	100,681.8	1,128.5	2.24%
Financial assets sold under repurchase agreements	15,312.1	252.9	3.30	28,843.8	341.1	2.36
Debt securities issued(5)	2,328.1	53.4	4.59	10,422.5	200.0	3.84
Deposits from banks and other financial institutions	7,915.3	167.6	4.23	9,960.1	156.5	3.14
Placements from banks and other financial institutions	182.8	4.0	4.38	780.8	11.0	2.82
Borrowing from the central bank	241.7	3.5	2.90	389.6	4.7	2.41
Total interest-bearing liabilities	**88,564.0**	**1,217.9**	**2.75%**	**151,078.6**	**1,841.8**	**2.44%**
Net interest income		**1,411.4**			**2,062.4**	
Net interest spread(6)			**2.85%**			**2.41%**
Net interest margin(7)			**3.00%**			**2.56%**

Notes:

(1) Average balances of interest-earning assets and interest-bearing liabilities are derived from the Group's management accounts. These amounts have not been audited.

(2) Calculated by dividing interest income/expense by average balance.

(3) Primarily include debt securities classified as receivables, available-for-sale financial assets, financial assets at fair value through profit or loss and held-to-maturity investments.

(4) Primarily consist of statutory deposit reserves, surplus deposit reserves and fiscal deposits.

(5) Primarily consist of tier-two capital bonds, subordinated fixed rate bonds and interbank certificates.

(6) Represents the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.

(7) Calculated by dividing net interest income by the average interest-earning assets (based on the daily average of the interest-earning assets).

The table below sets forth the changes in interest income and interest expense attributable to changes in volume and interest rate for the periods indicated. Changes in volume are measured by changes in the average balances, and changes in rate are measured by changes in the average interest rates. Changes caused by both volume and interest rate have been allocated to changes in volume.

	Six months ended June 30,		
	2015 vs. 2016		
	Increase/(decrease) due to		Net increase/ (decrease)(3)
	Volume(1)	Rate(2)	
	(in millions of RMB)		
Interest-earning assets			
Loans and advances to customers	345.4	(113.7)	231.7
Investment securities and other financial assets	879.5	(67.8)	811.7
Deposits with banks and other financial institutions	291.9	(14.7)	277.2
Financial assets held under resale agreements	19.6	(72.3)	(52.7)
Deposits with the central bank	20.2	(2.7)	17.5
Placements with banks and other financial institutions	1.4	(11.9)	(10.5)
Change in interest income	**1,558.0**	**(283.1)**	**1,274.9**
Interest-bearing liabilities			
Deposits from customers	427.1	(35.0)	392.1
Financial assets sold under repurchase agreements	160.0	(71.9)	88.1
Deposits from banks and other financial institutions	32.2	(43.3)	(11.1)
Debt securities issued	155.3	(8.7)	146.6
Placements from banks and other financial institutions	8.4	(1.4)	7.0
Borrowing from the central bank	1.8	(0.6)	1.2
Change in interest expense	**784.8**	**(160.9)**	**623.9**
Change in net interest income	**773.2**	**(122.2)**	**651.0**

Notes:

(1) Represents the average balance for the period minus the average balance for the previous period, multiplied by the average yield/cost for the period.

(2) Represents the average yield/cost for the period minus the average yield/cost for the previous period, multiplied by the average balance for the previous period.

(3) Represents interest income/expense for the period minus interest income/expense for the previous period.

Interest Income

The table below sets forth the principal components of interest income.

	Six months ended June 30,			
	2015		2016	
	Amount	% of Total	Amount	% of Total
	(unaudited) (in millions of RMB, except percentages)			
Loans and advances to customers	1,563.6	59.5%	1,795.3	45.9%
Investment securities and other financial assets	448.2	17.0	1,262.1	32.3
Deposits with banks and other financial institutions	233.1	8.9	508.2	13.1
Financial assets held under resale agreements	284.7	10.8	232.0	5.9
Deposits with the central bank	71.3	2.7	88.8	2.3
Placements with banks and other financial institutions	28.4	1.1	17.8	0.5
Total	**2,629.3**	**100.0%**	**3,904.2**	**100.0%**

Interest income increased 48.5% from RMB2,629.3 million in the six months ended June 30, 2015 to RMB3,904.2 million in the same period of 2016, primarily due to an increase in the average balance of interest-earning assets, from RMB93,954.8 million in the six months ended June 30, 2015 to RMB161,105.4 million in the same period of 2016, partially offset by a decrease in the average yield on interest-earning assets, from 5.60% in the six months ended June 30, 2015 to 4.85% in the same period of 2016. The increase in the average balance of interest-earning assets was primarily due to the increases in the average balance of investment securities and other financial assets, deposits with banks and other financial institutions loans and advances to customers, deposits with the central bank and financial assets held under resale agreements in line with the growth of the Group's business. The decrease in average yield on interest-earning assets was primarily due to the decreases in the average yield on placements with banks and other financial institutions, financial assets held under resale agreements, investment securities and other financial assets and loans and advances to customers.

Interest Income from Loans and Advances to Customers

Interest income from loans and advances to customers represented 59.5% and 45.9% of total interest income in the six months ended June 30, 2015 and 2016, respectively.

The table below sets forth the average balance, interest income and average yield of loans and advances to customers by product for the periods indicated.

	Six months ended June 30,					
	2015			2016		
	Average balance[(1)]	Interest income	Average yield	Average balance[(1)]	Interest income	Average yield
	(unaudited) (in millions of RMB, except percentages)					
Corporate loans	24,241.9	997.9	8.23%	35,976.3	1,262.3	7.02%
Retail loans	12,201.1	373.9	6.13	14,682.5	504.7	6.87
Discounted bills	5,872.8	191.8	6.53	1,736.1	28.3	3.26
Total loans and advances to customers	**42,315.8**	**1,563.6**	**7.39%**	**52,394.9**	**1,795.3**	**6.85%**

Note:
(1) Represents the average of daily balances.

Interest income from loans and advances to customers increased 14.8% from RMB1,563.6 million in the six months ended June 30, 2015 to RMB1,795.3 million in the same period of 2016, primarily due to an increase in the average balance of loans and advances to customers, from RMB42,315.8 million in the six months ended June 30, 2015 to RMB52,394.9 million in the same period of 2016, partially offset by a decrease in the average yield on loans and advances to customers, from 7.39% in the six months ended June 30, 2015 to 6.85% in the same period of 2016.

Interest income from corporate loans increased 26.5% from RMB997.9 million in the six months ended June 30, 2015 to RMB1,262.3 million in the same period of 2016, primarily due to an increase in the average balance of corporate loans, from RMB24,241.9 million in the six months ended June 30, 2015 to RMB35,976.3 million in the same period of 2016, partially offset by a decrease in the average yield on corporate loans, from 8.23% in the six months ended June 30, 2015 to 7.02% in the same period of 2016. The increase in the average balance of corporate loans was primarily attributable to (i) the consolidation of the financial results (including corporate loans) of rural credit cooperatives and a rural cooperative bank that were acquired, and the village and township banks that were established and acquired, and (ii) improvement in brand awareness driven by enhanced marketing efforts and customer service capabilities. The decrease in the average yield on corporate loans was primarily due to lower PBOC benchmark loan interest rates and market interest rates.

Interest income from retail loans increased 35.0% from RMB373.9 million in the six months ended June 30, 2015 to RMB504.7 million in the same period of 2016, primarily due to an increase in the average balance of retail loans, from RMB12,201.1 million in the six months ended June 30, 2015 to RMB14,682.5 million in the same period of 2016, as well as the average yield increased from 6.13% in the six months ended June 30, 2015 to 6.87% in the same period of 2016. The increase in the average balance of retail loans was primarily attributable to the consolidation of the financial results (including retail loans) of rural credit cooperatives and a rural cooperative bank that were acquired, and the village and township bank that were established and acquired. The increase in the average yield on retail loans was primarily due to the enhanced efforts in the recovery of non-performing retail loans, which was partially offset by the decrease in market interest rates.

Interest income from discounted bills decreased 85.2% from RMB191.8 million in the six months ended June 30, 2015 to RMB28.3 million in the same period of 2016, primarily due to a decrease in the average balance of discounted bills, from RMB5,872.8 million in the six months ended June 30, 2015 to RMB1,736.1 million in the same period of 2016, as well as the average yield on discounted bills decreased from 6.53% in the six months ended June 30, 2015 to 3.26% in the same period of 2016. The decrease in the average balance of discounted bills was primarily attributable to adjustment of the Group's development strategies for the discounted bills business in response to market and regulatory changes. In the first half of 2016, the Group proactively reduced the risk exposure to the discounted bills business. The decrease in the average yield on discounted bills was primarily due to (i) a decrease in the yield of the discounted bills business, primarily reflecting a longer average holding period for discounted bills, and (ii) a decrease in market interest rates attributable to lower PBOC benchmark deposit and loan interest rates and enhanced market liquidity.

Interest Income from Investment Securities and Other Financial Assets

Interest income from investment securities and other financial assets increased 181.6% from RMB448.2 million in the six months ended June 30, 2015 to RMB1,262.1 million in the same period of 2016, primarily due to an increase in the average balance of investment securities and other financial assets, from RMB16,224.3 million in the six months ended June 30, 2015 to RMB53,736.9 million in the same period of 2016, partially offset by a decrease in the average yield on investment securities and other financial assets, from 5.53% in the six months ended June 30, 2015 to 4.70% in the same period of 2016. The increase in the average balance was primarily due to (i) the Group's strategy to diversify its products and services and expand its treasury operations, and (ii) an increase in funds available for investments. The decrease in the average yield was primarily due to a decrease in market interest rates attributable to lower PBOC benchmark deposit and loan interest rates and improved market liquidity.

Interest Income from Deposits with Banks and Other Financial Institutions

Interest income from deposits with banks and other financial institutions increased 118.0% from RMB233.1 million in the six months ended June 30, 2015 to RMB508.2 million in the same period of 2016, primarily due to an increase in the average balance of deposits with banks and other financial institutions, from RMB11,623.7 million in the six months ended June 30, 2015 to RMB 27,156.2 million in the same period of 2016, partially offset by a decrease in the average yield on deposits with banks and other financial institutions, from 4.01% in the six months ended June 30, 2015 to 3.74% in the same period of 2016. The increase in the average balance was primarily attributable to (i) the consolidation of the financial results (including deposits with banks and other financials institutions) of rural credit cooperatives and a rural cooperative bank that were acquired, and the village and township banks that were established and acquired; (ii) an increase in the amount of funds available for investment attributable to the growth of deposits from customers, and (iii) the enhanced cooperation with other banks and financial institutions. The average yield on deposits with banks and other financial institutions decreased from 4.01% in the six months ended June 30, 2015 to 3.74% in the same period of 2016, mainly due to a decrease in market interest rates attributable to lower PBOC benchmark deposit and loan interest rates and enhanced market liquidity.

Interest Income from Financial Assets Held under Resale Agreements

Interest income from financial assets held under resale agreements decreased 18.5% from RMB284.7 million in the six months ended June 30, 2015 to RMB232.0 million in the same period of 2016, primarily due to an decrease in the average yield on financial assets held under resale agreements, from 4.16% in the six months ended June 30, 2015 to 3.11% in the same period of 2016, partially offset by an increase in the average balance of financial assets held under resale agreements, from RMB13,671.4 million in the six months ended June 30, 2015 to RMB14,931.4 million in the same period of 2016. The decrease in the average yield was primarily due to a decrease in market interest rates attributable to lower PBOC benchmark deposit and loan interest rates and enhanced market liquidity. The increase in the average balance was primarily because the Group entered into more reverse repurchase transactions to manage liquidity and balance risk and return.

Interest Income from Deposits with the Central Bank

Interest income from deposits with the central bank increased 24.5% from RMB71.3 million in the six months ended June 30, 2015 to RMB88.8 million in the same period of 2016, primarily due to an increase in the average balance of deposits with the central bank, from RMB9,142.3 million in the six months ended June 30, 2015 to RMB11,834.3 million in the same period of 2016, partially offset by a slight decrease in the average yield on deposits with the central bank, from 1.56% in the six months ended June 30, 2015 to 1.50% in the same period of 2016. The increase in the average balance of deposits with the central bank was primarily due to an increase in the statutory deposit reserves resulting from increased customer deposits.

Interest Expense

The table below sets forth the principal components of interest expense.

	Six months ended June 30,			
	2015		2016	
	Amount	% of Total	Amount	% of Total
	(unaudited) (in millions of RMB, except percentages)			
Deposits from customers	736.5	60.5%	1,128.5	61.3%
Financial assets sold under repurchase agreements	252.9	20.7	341.1	18.5
Debt securities issued	53.4	4.4	200.0	10.8
Deposits from banks and other financial institutions	167.6	13.8	156.5	8.5
Placements from banks and other financial institutions	4.0	0.3	11.0	0.6
Borrowing from the central bank	3.5	0.3	4.7	0.3
Total	**1,217.9**	**100.0%**	**1,841.8**	**100.0%**

Interest expense increased 51.2% from RMB1,217.9 million in the six months ended June 30, 2015 to RMB1,841.8 million in the same period of 2016, primarily due to an increase in the average balance of interest-bearing liabilities, from RMB88,564.0 million in the six months ended June 30, 2015 to RMB151,078.6 million in the same period of 2016, partially offset by a decrease in the average cost of interest-bearing liabilities, from 2.75% in the six months ended June 30, 2015 to 2.44% in the same period of 2016. The increase in the average balance of interest-bearing liabilities was primarily due to the increase in deposits from customers, financial assets sold under repurchase agreements, debt securities issued and deposits from banks and other financial institutions. The decrease in the average cost of interest-bearing liabilities was primarily due to the decrease in the average cost of placements from banks and other financial institutions, deposits from banks and other financial institutions, financial assets sold under repurchase agreements, debt securities issued, and borrowing from the central bank.

Interest Expenses on Deposits from Customers

Interest expenses on deposits from customers represented 60.5% and 61.3% of interest expenses in the six months ended June 30, 2015 and 2016, respectively.

The table below sets forth the average balance, interest expense and average cost for the components of deposit from customers for the periods indicated.

	Six months ended June 30,					
	2015			2016		
	Average balance[(1)]	Interest expense	Average cost	Average balance[(1)]	Interest expense	Average cost
	(unaudited) (in millions of RMB, except percentages)					
Corporate deposits						
Time	6,647.3	169.6	5.10%	21,470.7	459.5	4.28%
Demand	19,421.3	77.8	0.80	25,757.8	157.6	1.22
Subtotal	26,068.6	247.4	1.90	47,228.5	617.1	2.61
Retail deposits						
Time	24,663.9	458.6	3.72	39,675.0	486.9	2.45
Demand	11,851.5	30.5	0.52	13,778.3	24.5	0.36
Subtotal	36,515.4	489.1	2.68	53,453.3	511.4	1.91
Total deposits from customers	**62,584.0**	**736.5**	**2.35%**	**100,681.8**	**1,128.5**	**2.24%**

Note:
(1) Represents the average of daily balances.

Interest expenses on deposits from customers increased 53.2% from RMB736.5 million in the six months ended June 30, 2015 to RMB1,128.5 million in the same period of 2016, primarily due to an increase in the average balance of deposits from customers, from RMB62,584.0 million in the six months ended June 30, 2015 to RMB100,681.8 million in the same period of 2016, partially offset by a decrease in the average cost of deposits from customers, from 2.35% in the six months ended June 30, 2015 to 2.24% in the same period of 2016.

Interest expenses on corporate deposits increased 149.5% from RMB247.4 million in the six months ended June 30, 2015 to RMB617.1 million in the same period of 2016, primarily due to an increase in the average balance of corporate deposits, from RMB26,068.6 million in the six months ended June 30, 2015 to RMB47,228.5 million in the same period of 2016, as well as an increase in the average cost of corporate deposits, from 1.90% in the six months ended June 30, 2015 to 2.61% in the same period of 2016. The increase in the average balance of corporate deposits was primarily attributable to (i) the consolidation of the financial results (including corporate deposits) of rural credit cooperatives and a rural cooperative bank that were acquired, and the village and township banks that were established and acquired, (ii) expansion of the branch network, and (iii) enhanced marketing efforts to attract corporate deposits. The increase in the average cost of corporate deposits primarily reflected (i) higher deposits interests rates driven by the continuing liberalization of interest rates on RMB-denominated deposits, and (ii) increased proportion of time deposits with longer-term and higher-cost in line with market demand.

Interest expenses on retail deposits increased 4.6% from RMB489.1 million in the six months ended June 30, 2015 to RMB511.4 million in the same period of 2016, primarily due to an increase in the average balance of retail deposits, from RMB36,515.4 million in the six months ended June 30, 2015 to RMB53,453.3 million in the same period of 2016, partially offset by a decrease in the average cost of retail deposits, from 2.68% in the six months ended June 30, 2015 to 1.91% in the same period of 2016. The increase in the average balance of retail deposits was primarily attributable to (i) the consolidation of the financial results (including retail deposits) of rural credit cooperatives and a rural cooperative bank that were acquired, and the village and township banks that were established and acquired, (ii) expansion of the branch network, and (iii) enhanced marketing efforts to attract retail deposits. The decrease in the average cost of retail deposits was primarily due to lower PBOC benchmark deposit interest rates.

Interest Expenses on Financial Assets Sold under Repurchase Agreements

Interest expenses on financial assets sold under repurchase agreements increased 34.8% from RMB252.9 million in the six months ended June 30, 2015 to RMB341.1 million in the same period of 2016, mainly due to a decrease in the average cost of financial assets sold under repurchase agreements, from 3.30% in the six months ended June 30, 2015 to 2.36% in the same period of 2016, partially offset by an increase in the average balance of financial assets sold under repurchase agreements, from RMB15,312.1 million in the six months ended June 30, 2015 to RMB28,843.8 million in the same period of 2016. The decrease in the average cost was primarily due to a decrease in market interest rates attributable to lower PBOC benchmark deposit and loan interest rates and improved market liquidity. The increase in the average balance was the result of more repurchase transactions for managing liquidity and balancing risk and cost.

Interest Expenses on Debt Securities Issued

Interest expenses on debt securities issued increased 274.9% from RMB53.4 million in the six months ended June 30, 2015 to RMB200.0 million in the same period of 2016, mainly due to the issuance of interbank deposits in an aggregate principal amount of RMB13,470.0 million in the six months ended June 30, 2016. See “Assets and Liabilities—Liabilities and Sources of Funds—Debt Securities Issued”.

Interest Expenses on Deposits from Banks and Other Financial Institutions

Interest expenses on deposits from banks and other financial institutions decreased 6.6% from RMB167.6 million in the six months ended June 30, 2015 to RMB156.5 million in the same period of 2016, mainly due to a decrease in the average cost of deposits from banks and other financial institutions, from 4.23% in the six months ended June 30, 2015 to 3.14% in the six months ended

June 30, 2016, partially offset by an increase in the average balance of deposits from banks and other financial institutions, from RMB7,915.3 million in the six months ended June 30, 2015 to RMB9,960.1 million in the same period of 2016. The decrease in the average cost was primarily due to the decrease in market interest rates attributable to lower PBOC benchmark deposit interest rates and improved market liquidity. The increase in the average balance was primarily due to the consolidation of the financial results (including deposits from banks and other financial institutions) of rural credit cooperatives and a rural cooperative bank that were acquired, and the village and township banks that were established and acquired.

Net Interest Spread and Net Interest Margin

Net interest spread is the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities. Net interest margin is the ratio of net interest income to the average balance of interest-earning assets.

Net interest spread decreased from 2.85% in the six months ended June 30, 2015 to 2.41% in the same period of 2016, and net interest margin decreased from 3.00% in the six months ended June 30, 2015 to 2.56% in the same period of 2016, primarily due to a decrease in the average yield on loans and advances to customers, reflecting lower PBOC benchmark loan interest rates and market interest rates.

Net Fee and Commission Income

Net fee and commission income represented 4.8% and 9.8% of operating income in the six months ended June 30, 2015 and 2016, respectively. The table below sets forth the principal components of net fee and commission income for the periods indicated.

	Six months ended June 30,	
	2015	2016
	(unaudited)	
	(in millions of RMB)	
Fee and commission income		
Advisory fees	47.8	132.1
Wealth management service fees	1.1	58.6
Syndicated loan service fees	5.0	31.0
Agency service fees	12.4	26.2
Settlement and clearing fees	10.1	17.0
Bank card service fees	2.2	3.1
Others[(1)]	7.1	6.2
Subtotal	**85.7**	**274.2**
Fee and commission expenses	**(5.3)**	**(13.5)**
Net fee and commission income	**80.4**	**260.7**

Note:

(1) Primarily consists of fee income from loan business, fee and commission of guarantees and commitments and income from safe deposit box business.

Fee and Commission Income

Net fee and commission income increased by 224.2% from RMB80.4 million in the six months ended June 30, 2015 to RMB260.7 million in the same period of 2016, primarily due to the increase in advisory fees, wealth management service fees, syndicated loan service fees and agency service fees.

Advisory Fees

Advisory fees increased by 176.4% from RMB47.8 million in the six months ended June 30, 2015 to RMB132.1 million in the same period of 2016, primarily reflecting an increase in the scale of the advisory business.

Wealth Management Service Fees

Wealth management service fees mainly included commissions for selling and managing non-guaranteed wealth management products. Wealth management service fees increased by 5,227.3% from RMB1.1 million in the six months ended June 30, 2015 to RMB58.6 million in the same period of 2016, mainly reflecting an increase in the sale of non-guaranteed wealth management products driven by the enhanced marketing efforts and diversification of wealth management products and services.

Syndicated Loan Service Fees

Syndicated loan service fees mainly included fees for arranging syndicated loans. Syndicated loan service fees increased 520.0% from RMB5.0 million in the six months ended June 30, 2015 to RMB31.0 million in the same period of 2016, mainly due to an increase in the scale of syndicated loans.

Agency Service Fees

Agency service fees mainly included fees for providing entrusted loans and fee collection services. Agency service fees increased 111.3% from RMB12.4 million in the six months ended June 30, 2015 to RMB26.2 million in the same period of 2016, mainly due to an increase in the scale of entrusted loans.

Settlement and Clearing Fees

Settlement and clearing fees mainly included fees from providing cash, money transfer, bank drafts, cheques, international remittance, bill collection and letter of credit services. Settlement and clearing fees increased 68.3% from RMB10.1 million in the six months ended June 30, 2015 to RMB17.0 million in the same period of 2016, primarily reflecting an increase in the volume of domestic settlement transactions.

Bank Card Services Fees

Bank card services fee mainly included fees charged on debit cards. Bank card services fee increased 40.9% from RMB2.2 million in the six months ended June 30, 2015 to RMB3.1 million in the same period of 2016, primarily attributable to the increased number of debit cards.

Fee and Commission Expenses

Fee and commission expenses mainly included fees paid to third parties for settlement and clearing services. Fee and commission expenses increased 154.7% from RMB5.3 million in the six months ended June 30, 2015 to RMB13.5 million in the same period of 2016, mainly due to an increase in the volume of domestic settlement transactions.

Net Gains Arising from Investment Securities

Net gains arising from investment securities included net gains from selling investment securities and other financial assets and revaluation gains resulting from the reclassification of other consolidated income to profits or losses upon the disposal of assets.

Net gains arising from investment securities increased 454.8% from RMB30.1 million in the six months ended June 30, 2015 to RMB167.0 million in the same period of 2016. The increase was mainly due to the disposition of certain investment securities to realize gains as part of the Group's proactive asset management strategies since the first half of 2016 in response to changes in the interest rate environment.

Dividend Income

Dividend income increased 53.7% from RMB69.3 million in the six months ended June 30, 2015 to RMB106.5 million in the same period of 2016. The increase was mainly due to higher dividends received from rural commercial banks and other institutions resulting from their increased profits.

Net Trading Gains/(Losses)

Net trading gains/(losses) primarily include gains from selling, and the fair value changes, of debt securities held for trading and wealth management products issued by other financial institutions. Net trading gains decreased 29.9% from RMB64.6 million in the six months ended June 30, 2015 to RMB45.3 million in the same period of 2016, mainly due to fluctuation of the market interest rates.

Net Exchange (Losses)/Gains

Net exchange (losses)/gains mainly included net gains arising out of foreign exchange settlement and foreign exchange transactions. The Group had net exchange gains of RMB3.4 million and RMB3.1 million in the six months ended June 30, 2015 and 2016, respectively, primarily reflecting the fluctuation of foreign exchange rates.

Other Operating Income

Other operating income mainly included government subsidies. Other operating income decreased 19.4% from RMB7.2 million in the six months ended June 30, 2015 to RMB5.8 million in the same period of 2016, which primarily reflected the decrease in government subsidies received by the village and township banks.

Operating Expenses

The table below sets forth the principal components of operating expenses for the periods indicated.

	Six months ended June 30,			
	2015		2016	
	Amount	% of Total	Amount	% of Total
	(unaudited) (in millions of RMB, except percentages)			
Staff costs	418.4	55.3%	593.4	54.2%
Property and equipment expenses	151.1	20.0	209.3	19.1
General management and administrative expenses	114.1	15.0	178.5	16.3
Business tax and surcharges	73.3	9.7	113.4	10.4
Total	**756.9**	**100.0%**	**1,094.6**	**100.0%**

Operating expenses increased 44.6% from RMB756.9 million in the six months ended June 30, 2015 to RMB1,094.6 million in the same period of 2016. The increase was primarily due to the increase in staff costs.

Staff Costs

Staff costs were the largest component of operating expenses, representing 55.3% and 54.2% of total operating expenses in the six months ended June 30, 2015 and 2016, respectively.

The table below sets forth the components of staff costs for the periods indicated.

	Six months ended June 30,	
	2015	2016
	(unaudited) (in millions of RMB)	
Salaries and bonuses	288.4	423.1
Social insurance	79.3	97.8
Staff welfares	21.8	35.1
Housing allowances	22.6	28.3
Labor union and staff education expenses	6.3	9.1
Staff costs	**418.4**	**593.4**

Staff costs increased 41.8% from RMB418.4 million in the six months ended June 30, 2015 to RMB593.4 million in the same period of 2016. The increase in staff costs primarily reflected (i) an increase in the number of employees because of the acquisitions and the organic growth and the expansion of the branch network, and (ii) adjustment of the remuneration packages to attract and retain talent.

Property and Equipment Expenses

Property and equipment expenses increased by 38.5% from RMB151.1 million in the six months ended June 30, 2015 to RMB209.3 million in the same period of 2016. The increase in property and equipment expenses was mainly due to an increase in depreciation on properties owned by newly established branches and rent for leased properties.

General Management and Administrative Expenses

Other operating expenses mainly included business promotion fees, transportation fee in relation to the delivery of cash and repair expenses. General management and administrative expenses increased by 56.5% from RMB114.1 million in the six months ended June 30, 2015 to RMB178.5 million in the same period of 2016, primarily reflecting the Group's business growth.

Business Tax and Surcharges

The Group pays taxes for interest income from loans, fee and commission income and securities trading gains. Business tax and surcharges increased by 54.7% from RMB73.3 million in the six months ended June 30, 2015 to RMB113.4 million in the same period of 2016. The increases in business tax and surcharges were in line with the increase in taxable income driven by the Group's business growth.

Impairment Losses on Assets

The table below sets forth the principal components of impairment losses on assets for the periods indicated.

	Six months ended June 30,	
	2015	2016
	(unaudited) (in millions of RMB)	
Loans and advances to customers	195.6	253.4
Debt securities classified as receivables	11.6	(8.3)
Held-to-maturity investments	—	—
Other receivables	—	—
Property and equipment[(1)]	—	0.2
Impairment losses on assets	**207.2**	**245.3**

Note:
(1) Primarily consist of property and equipment and repossessed assets.

Impairment losses on assets increased 18.4% from RMB207.2 million in the six months ended June 30, 2015 to RMB245.3 million in the same period of 2016, mainly due to an increase in provisions for loan impairment losses driven by an increase in loans and advances to customers, which was partially offset by the reversal of impairment on debt securities classified as receivables.

Profit before Tax

As a result of the foregoing, profit before tax increased 87.1% from RMB702.9 million in the six months ended June 30, 2015 to RMB1,314.8 million in the same period of 2016.

Income Tax Expense

The table below sets forth a reconciliation between income tax expense calculated based on the applicable statutory income tax rate and actual income tax expense for the periods indicated.

	Six months ended June 30,	
	2015	2016
	(unaudited)	
	(in millions of RMB)	
Profit before tax	702.9	1,314.8
Tax at domestic income tax rate of 25%	175.7	328.7
Tax effect of results of associates attributable to the Company	(0.2)	(1.0)
Add Tax effect of expenses not deductible for tax purpose[(1)]	1.4	1.3
Tax effect of income that is not taxable for tax purpose[(2)]	(22.5)	(42.7)
Adjustment of income taxes for previous years	(5.4)	3.0
Tax calculated at favorable tax rate	(4.7)	(7.3)
Decrease in deferred income tax at the beginning of the period resulted from the change in tax rate	4.3	—
Income tax expense	**148.6**	**282.0**

Notes:

(1) Primarily consists of non-deductible expenses under the Mainland China tax regulations.

(2) Primarily consists of interest income from the Mainland China government bonds and income from equity investment between qualified resident enterprises such as dividends and bonuses, which are exempted from income tax under the Mainland China tax regulation.

Income tax expense increased 89.8% from RMB148.6 million in the six months ended June 30, 2015 to RMB282.0 million in the same period of 2016. The increase in income tax expense was in line with the increase in profit before tax. Effective tax rates were 21.1% and 21.4% in the six months ended June 30, 2015 and 2016, respectively. The relative lower effective tax rate in the six months ended June 30, 2015 was mainly due to higher percentage of non-taxable income (including dividend income, interest income from treasury bonds and local government bonds and interest income from small loans to rural households and individuals).

Profit for the Period

As a result of the foregoing, profit for the period increased 86.3% from RMB554.3 million in the six months ended June 30, 2015 to RMB1,032.8 million in the same period of 2016.

For the years ended December 31, 2013, 2014 and 2015

Net Interest Income

Net interest income is the largest component of operating income, representing 80.2%, 79.1% and 79.0% of operating income in 2013, 2014 and 2015, respectively.

The table below sets forth the average balances of the Group's interest-earning assets and interest-bearing liabilities, the related interest income or expenses and the average yield or average cost for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities are the average of the daily balances.

	Year ended December 31,								
	2013			2014			2015		
	Average balance(1)	Interest income	Average yield(2)	Average balance(1)	Interest income	Average yield(2)	Average balance(1)	Interest income	Average yield(2)
	(in millions of RMB, except percentages)								
Interest-earning assets									
Loans and advances to customers	15,828.1	1,447.5	9.15%	28,148.1	2,527.0	8.98%	47,759.4	3,600.7	7.54%
Investment securities and other financial assets(3)	6,942.2	428.4	6.17	14,760.9	928.1	6.29	25,742.8	1,217.1	4.73
Financial assets held under resale agreements	7,477.2	372.5	4.98	12,409.2	601.7	4.85	15,341.9	542.5	3.54
Deposits with banks and other financial institutions	7,670.4	246.7	3.22	11,673.1	488.9	4.19	13,242.6	533.7	4.03
Deposits with the central bank(4)	5,210.1	68.6	1.32	7,809.9	109.0	1.40	9,438.0	144.8	1.53
Placements with banks and other financial institutions	336.8	16.8	4.99	424.6	25.0	5.89	683.6	41.8	6.11
Total interest-earning assets	**43,464.8**	**2,580.5**	**5.94%**	**75,225.8**	**4,679.7**	**6.22%**	**112,208.3**	**6,080.6**	**5.41%**

	Year ended December 31,								
	2013			2014			2015		
	Average balance(1)	Interest expense	Average cost(2)	Average balance(1)	Interest expense	Average cost(2)	Average balance(1)	Interest expense	Average cost(2)
	(in millions of RMB, except percentages)								
Interest-bearing liabilities									
Deposits from customers	25,948.3	458.4	1.77%	43,519.3	881.0	2.02%	69,567.1	1,582.8	2.28%
Financial assets sold under repurchase agreements	8,855.2	418.9	4.73	16,409.7	681.7	4.15	21,122.2	586.8	2.78
Deposits from banks and other financial institutions	5,889.8	189.3	3.21	9,150.6	463.2	5.06	7,279.8	290.3	3.99
Debt securities issued(5)	697.1	49.0	7.03	856.5	56.4	6.58	4,863.9	226.9	4.66
Placements from banks and other financial institutions	198.0	4.9	2.47	448.3	24.5	5.47	441.1	13.7	3.11
Borrowing from the central bank	33.4	1.4	4.19	212.9	6.5	3.05	277.2	7.9	2.85
Total interest-bearing liabilities	**41,621.8**	**1,121.9**	**2.70%**	**70,597.3**	**2,113.3**	**2.99%**	**103,551.3**	**2,708.4**	**2.62%**
Net interest income		**1,458.6**			**2,566.4**			**3,372.2**	
Net interest spread(6)			**3.24%**			**3.23%**			**2.79%**
Net interest margin(7)			**3.36%**			**3.40%**			**3.01%**

Notes:

(1) Average balances of interest-earning assets and interest-bearing liabilities are derived from the Group's management accounts. These amounts have not been audited.

(2) Calculated by dividing interest income/expense by average balance.

(3) Primarily include debt securities classified as receivables, available-for-sale financial assets, financial assets at fair value through profit or loss and held-to-maturity investments.

(4) Primarily consist of statutory deposit reserves, surplus deposit reserves and fiscal deposit reserves.

(5) Primarily consist of tier-two capital bonds, subordinated fixed rate bonds and interbank certificates.

(6) Represents the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.

(7) Calculated by dividing net interest income by the average balance of interest-earning assets (based on the daily average of the interest-earning assets).

The table below sets forth the changes in interest income and interest expense attributable to changes in volume and interest rate for the periods indicated. Changes in volume are measured by changes in the average balances, and changes in rate are measured by changes in the average interest rates. Changes caused by both volume and interest rate have been allocated to changes in volume.

	Year ended December 31,					
	2013 vs. 2014			2014 vs. 2015		
	Increase/(decrease) due to		Net increase/ (decrease)[3]	Increase/(decrease) due to		Net increase/ (decrease)[3]
	Volume[1]	Rate[2]		Volume[1]	Rate[2]	
	(in millions of RMB)					
Interest-earning assets						
Loans and advances to customers	1,106.0	(26.5)	1,079.5	1,478.5	(404.8)	1,073.7
Investment securities and other financial assets	491.6	8.1	499.7	519.2	(230.2)	289.0
Financial assets held under resale agreements	239.1	(9.9)	229.2	103.7	(162.9)	(59.2)
Deposits with banks and other financial institutions	167.6	74.5	242.1	63.2	(18.4)	44.8
Deposits with the central bank	36.3	4.1	40.4	25.0	10.8	35.8
Placements with banks and other financial institutions	5.3	3.0	8.3	15.9	0.9	16.8
Change in interest income	**2,045.9**	**53.3**	**2,099.2**	**2,205.5**	**(804.6)**	**1,400.9**
Interest-bearing liabilities						
Deposits from customers	355.7	66.9	422.6	592.6	109.2	701.8
Financial assets sold under repurchase agreements	313.8	(51.0)	262.8	130.9	(225.8)	(94.9)
Deposits from banks and other financial institutions	165.2	108.8	274.0	(74.6)	(98.3)	(172.9)
Debt securities issued	10.5	(3.1)	7.4	186.9	(16.4)	170.5
Placements from banks and other financial institutions	13.7	5.9	19.6	(0.2)	(10.6)	(10.8)
Borrowing from the central bank	5.5	(0.5)	5.0	1.8	(0.4)	1.4
Change in interest expense	**864.4**	**127.0**	**991.4**	**837.4**	**(242.3)**	**595.1**
Change in net interest income	**1,181.5**	**(73.7)**	**1,107.8**	**1,368.1**	**(562.3)**	**805.8**

Notes:

(1) Represents the average balance for the year minus the average balance for the previous year, multiplied by the average yield/cost for the year.

(2) Represents the average yield/cost for the year minus the average yield/cost for the previous year, multiplied by the average balance for the previous year.

(3) Represents interest income/expense for the year minus interest income/expense for the previous year.

Interest Income

The table below sets forth the principal components of interest income for the periods indicated.

	Year ended December 31,					
	2013		2014		2015	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(in millions of RMB, except percentages)					
Loans and advances to customers	1,447.5	56.1%	2,527.0	54.1%	3,600.7	59.2%
Investment securities and other financial assets	428.4	16.6	928.1	19.8	1,217.1	20.0
Financial assets held under resale agreements	372.5	14.4	601.7	12.9	542.5	8.9
Deposits with banks and other financial institutions	246.7	9.6	488.9	10.4	533.7	8.8
Deposits with the central bank	68.6	2.7	109.0	2.3	144.8	2.4
Placements with banks and other financial institutions	16.8	0.6	25.0	0.5	41.8	0.7
Total	**2,580.5**	**100.0%**	**4,679.7**	**100.0%**	**6,080.6**	**100.0%**

Interest income increased 29.9% from RMB4,679.7 million in 2014 to RMB6,080.6 million in 2015, primarily due to an increase in the average balance of interest-earning assets, from RMB75,225.8 million in 2014 to RMB112,208.3 million in 2015, partially offset by a decrease in the average yield on interest-earning assets, from 6.22% in 2014 to 5.41% in 2015. The increase in the average balance of interest-earning assets was primarily due to the increases in the average balance of loans and advances to customers, investment securities and other financial assets, deposits with banks and other financial institutions and financial assets held under resale agreements in line with the growth of the business. The decrease in average yield on interest-earning assets was primarily due to the decreases in the average yield on loans and advances to customers, investment securities and other financial assets, deposits with banks and other financial institutions and financial assets held under resale agreements.

Interest income increased 81.3% from RMB2,580.5 million in 2013 to RMB4,679.7 million in 2014, primarily due to an increase in the average balance of interest-earning assets, from RMB43,464.8 million in 2013 to RMB75,225.8 million in 2014, and an increase in the average yield on interest-earning assets, from 5.94% in 2013 to 6.22% in 2014. The increase in the average balance of interest-earning assets was primarily due to the increase in the average balance of loans and advances to customers, investment securities and other financial assets, deposit with banks and other financial institutions and financial assets held under resale agreements in line with the growth of the business. The increase in the average yield on interest-earning assets was primarily due to the increase in the average yield on investment securities and other financial assets, deposits with banks and other financial institutions, deposits with the central bank and placements with banks and other financial institutions.

Interest Income from Loans and Advances to Customers

Interest income from loans and advances to customers represented 56.1%, 54.1% and 59.2% of total interest income in 2013, 2014 and 2015, respectively.

The table below sets forth the average balance, interest income and average yield of loans and advances to customers by product for the periods indicated.

	Year ended December 31,								
	2013			2014			2015		
	Average balance(1)	Interest income	Average yield	Average balance(1)	Interest income	Average yield	Average balance(1)	Interest income	Average yield
	(in millions of RMB, except percentages)								
Corporate loans	10,436.2	905.5	8.68%	18,784.4	1,633.4	8.70%	26,602.1	2,205.4	8.29%
Retail loans	5,124.9	419.1	8.18	8,083.6	648.5	8.02	13,460.1	992.0	7.37
Discounted bills	267.0	122.9	46.03	1,280.1	245.1	19.15	7,697.2	403.3	5.24
Total loans and advances to customers	**15,828.1**	**1,447.5**	**9.15%**	**28,148.1**	**2,527.0**	**8.98%**	**47,759.4**	**3,600.7**	**7.54%**

Note:

(1) Represents the average of daily balances.

Interest income from loans and advances to customers increased 42.5% from RMB2,527.0 million in 2014 to RMB3,600.7 million in 2015, primarily due to an increase in the average balance of loans and advances to customers, from RMB28,148.1 million in 2014 to RMB47,759.4 million in 2015, partially offset by a decrease in the average yield on loans and advances to customers, from 8.98% in 2014 to 7.54% in 2015.

Interest income from loans and advances to customers increased 74.6% from RMB1,447.5 million in 2013 to RMB2,527.0 million in 2014, primarily due to an increase in the average balance of loans and advances to customers, from RMB15,828.1 million in 2013 to RMB28,148.1 million in 2014, partially offset by a decrease in the average yield on loans and advances to customers, from 9.15% in 2013 to 8.98% in 2014.

2015 Compared to 2014

Interest income from corporate loans increased 35.0% from RMB1,633.4 million in 2014 to RMB2,205.4 million in 2015, primarily due to an increase in the average balance of corporate loans, from RMB18,784.4 million in 2014 to RMB26,602.1 million in 2015, partially offset by a decrease in the average yield on corporate loans, from 8.70% in 2014 to 8.29% in 2015. The increase in the average balance of corporate loans was primarily attributable to (i) the consolidation of the financial results (including corporate loans) of rural credit cooperatives and a rural cooperative bank that were acquired, and the village and township banks that were established and acquired, and (ii) improvement in brand awareness driven by enhanced marketing efforts and customer service capabilities. The decrease in the average yield on corporate loans was primarily due to lower PBOC benchmark loan interest rates.

Interest income from retail loans increased 53.0% from RMB648.5 million in 2014 to RMB992.0 million in 2015, primarily due to an increase in the average balance of retail loans, from RMB8,083.6 million in 2014 to RMB13,460.1 million in 2015, partially offset by a decrease in the average yield on retail loans, from 8.02% in 2014 to 7.37% in 2015. The increase in the average balance of retail loans was primarily attributable to an increase in personal business loans and residential and commercial mortgage loans. The decrease in the average yield on retail loans was primarily due to lower PBOC benchmark loan interest rates.

Interest income from discounted bills increased 64.5% from RMB245.1 million in 2014 to RMB403.3 million in 2015, primarily due to an increase in the average balance of discounted bills, from RMB1,280.1 million in 2014 to RMB7,697.2 million in 2015, partially offset by a decrease in the average yield on discounted bills, from 19.15% in 2014 to 5.24% in 2015. The increase in the average balance of discounted bills was primarily attributable to efforts to manage the liquidity by increasing the position in discounted bills. The decrease in the average yield on discounted bills was primarily due to (i) the decrease in turnover in the discounted bills business was primarily due to a longer average holding period for discounted bills; and (ii) a decrease in market interest rates attributable to lower PBOC benchmark deposit and loan interest rates and enhanced market liquidity.

2014 Compared to 2013

Interest income from corporate loans increased 80.4% from RMB905.5 million in 2013 to RMB1,633.4 million in 2014, primarily due to an increase in the average balance of corporate loans from RMB10,436.2 million in 2013 to RMB18,784.4 million in 2014, as well as a slight increase in the average yield on corporate loans, from 8.68% in 2013 to 8.70% in 2014. The increase in the average balance of corporate loans was primarily attributable to (i) the acquisition of rural credit cooperatives and establishment of village and township banks, and (ii) improvement in brand awareness driven by enhanced marketing efforts and customer service capabilities. The increase in the average yield on corporate loans was primarily because the rural credit cooperatives that were acquired, and the village and township banks that were established were able to charge higher interests on corporate loans.

Interest income from retail loans increased 54.7% from RMB419.1 million in 2013 to RMB648.5 million in 2014, primarily due to an increase in the average balance of retail loans, from RMB5,124.9 million in 2013 to RMB8,083.6 million in 2014, partially offset by a decrease in the average yield on retail loans, from 8.18% in 2013 to 8.02% in 2014. The increase in the average balance of retail loans was primarily attributable to an increase in personal business loans and residential and commercial mortgage loans. The decrease in the average yield on retail loans was primarily due to (i) increased proportion of residential and commercial mortgage loans with relatively lower risks and average yields and decreased proportion of personal consumption loans with relatively higher average yields and risks, and (ii) lower interest rates for retail loans as a result of pricing pressures in a competitive market.

Interest income from discounted bills increased 99.4% from RMB122.9 million in 2013 to RMB245.1 million in 2014, primarily due to an increase in the average balance of discounted bills, from RMB267.0 million in 2013 to RMB1,280.1 million in 2014, partially offset by a decrease in the average yield on discounted bills, from 46.03% in 2013 to 19.15% in 2014. The increase in the average balance on discounted bills was primarily due to efforts to manage the liquidity by increasing the position in discounted bills. The decrease in the average yield on discounted bills was primarily due to the decrease in turnover in the discounted bills business was primarily due to a longer average holding period for discounted bills.

Interest Income from Investment Securities and Other Financial Assets

2015 Compared to 2014

Interest income from investment securities and other financial assets increased 31.1% from RMB928.1 million in 2014 to RMB1,217.1 million in 2015, primarily due to an increase in the average balance of investment securities and other financial assets, from RMB14,760.9 million in 2014 to RMB25,742.8 million in 2015, partially offset by a decrease in the average yield on investment securities and other financial assets, from 6.29% in 2014 to 4.73% in 2015. The increase in the average balance was primarily due to (i) the Group's strategy to diversify its products and services and expand its treasury operations, and (ii) an increase in funds available for investments. The decrease in the average yield was primarily due to a decrease in market interest rates attributable to lower PBOC benchmark deposit and loan interest rates and improved market liquidity.

2014 Compared to 2013

Interest income from investment securities and other financial assets increased 116.6% from RMB428.4 million in 2013 to RMB928.1 million in 2014, primarily due to an increase in the average balance of investment securities and other financial assets, from RMB6,942.2 million in 2013 to RMB14,760.9 million in 2014, as well as an increase in the average yield on such assets, from 6.17% in 2013 to 6.29% in 2014. The increase in the average balance was primarily due to (i) the Group's strategy to diversify its products and services and expand its treasury operations, and (ii) an increase in funds available for investments. The increase in the average yield was primarily attributable to an increase in the proportion of investment products with higher yields (primarily asset management plans and trust plans and wealth management products issued by other financial institutions) in its investment portfolio.

Interest Income from Financial Assets Held under Resale Agreements

2015 Compared to 2014

Interest income from financial assets held under resale agreements decreased 9.8% from RMB601.7 million in 2014 to RMB542.5 million in 2015, primarily due to an decrease in the average yield on financial assets held under resale agreements, from 4.85% in 2014 to 3.54% in 2015, partially offset by an increase in the average balance of financial assets held under resale agreements, from RMB12,409.2 million in 2014 to RMB15,341.9 million in 2015. The decrease in the average yield was primarily due to a decrease in market interest rates attributable to lower PBOC benchmark deposit and loan interest rates and enhanced market liquidity. The increase in the average balance was primarily because the Group entered into more reverse repurchase transactions to manage liquidity and balance risk and return.

2014 Compared to 2013

Interest income from financial assets held under resale agreements increased 61.5% from RMB372.5 million in 2013 to RMB601.7 million in 2014, primarily due to an increase in the average balance of financial assets held under resale agreements, from RMB7,477.2 million in 2013 to RMB12,409.2 million in 2014, partially offset by a slight decrease in the average yield of such assets from 4.98% in 2013 to 4.85% in 2014. The increase in the average balance of such assets was primarily due to an increase in reverse repurchase transactions to manage the liquidity and balance risk and return. The decrease in the average yield on such assets was primarily due to the decrease in market interest rates as a result of increased market liquidity.

Interest Income from Deposits with Banks and Other Financial Institutions

2015 Compared to 2014

Interest income from deposits with banks and other financial institutions increased 9.2% from RMB488.9 million in 2014 to RMB533.7 million in 2015, primarily due to an increase in the average balance of deposits with banks and other financial institutions, from RMB11,673.1 million in 2014 to

RMB13,242.6 million in 2015. The increase in the average balance was primarily attributable to (i) the consolidation of the financial results (including deposits with banks and other financials institutions) of rural credit cooperatives and a rural cooperative bank that were acquired, and the village and township banks that were established and acquired; (ii) an increase in the amount of funds available for investment attributable to the growth of deposits from customers, and (iii) the enhanced cooperation with other banks and financial institutions. The average yield on deposits with banks and other financial institutions decreased from 4.19% in 2014 to 4.03% in 2015, mainly due to a decrease in market interest rates attributable to lower PBOC benchmark deposit and loan interest rates and enhanced market liquidity.

2014 Compared to 2013

Interest income from deposits with banks and other financial institutions increased 98.2% from RMB246.7 million in 2013 to RMB488.9 million in 2014, primarily due to an increase in the balance of deposits with banks and other financial institutions, from RMB7,670.4 million in 2013 to RMB11,673.1 million in 2014, as well as an increase in the average yield on deposits with banks and other financial institutions, from 3.22% in 2013 to 4.19% in 2014. The increase in the average balance was primarily attributable to (i) the acquisition of rural credit cooperatives and establishment of village and township banks, (ii) an increase in the amount of funds available for investment attributable to the growth of deposits from customers, and (iii) the enhanced cooperation with other banks and financial institutions. The increase in the average yield primarily reflected an increase in long-term deposits with banks and other financial institutions, which had relatively higher yields.

Interest Income from Deposits with the Central Bank

2015 Compared to 2014

Interest income from deposits with the central bank increased 32.8% from RMB109.0 million in 2014 to RMB144.8 million in 2015, primarily due to an increase in the average balance of deposits with the central bank, from RMB7,809.9 million in 2014 to RMB9,438.0 million in 2015, as well as a slight increase in the average yield on deposits with the central bank, from 1.40% in 2014 to 1.53% in 2015. The increase in the average balance of deposits with the central bank was primarily due to an increase in the statutory deposit reserves resulting from increased customer deposits, partially offset by a reduction in the statutory reserve ratio in 2015.

2014 Compared to 2013

Interest income from deposits with the central bank increased 58.9% from RMB68.6 million in 2013 to RMB109.0 million in 2014, primarily due to an increase in the average balance of deposits with the central bank, from RMB5,210.1 million in 2013 to RMB7,809.9 million in 2014, as well as a slight increase in the average yield on deposits with the central bank, from 1.32% in 2013 to 1.40% in 2014. The increase in the average balance with the central bank was primarily due to an increase in the statutory deposit reserves resulting from increased customer deposits.

Interest Expense

The table below sets forth the principal components of interest expense for the periods indicated.

	Year ended December 31,					
	2013		2014		2015	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(in millions of RMB, except percentages)					
Deposits from customers	458.4	40.9%	881.0	41.7%	1,582.8	58.4%
Financial assets sold under repurchase agreements	418.9	37.3	681.7	32.3	586.8	21.7
Deposits from banks and other financial institutions	189.3	16.9	463.2	21.9	290.3	10.7
Debt securities issued	49.0	4.4	56.4	2.7	226.9	8.4
Placements from banks and other financial institutions	4.9	0.4	24.5	1.1	13.7	0.5
Borrowing from the central bank	1.4	0.1	6.5	0.3	7.9	0.3
Total	**1,121.9**	**100.0%**	**2,113.3**	**100.0%**	**2,708.4**	**100.0%**

Interest expense increased 28.2% from RMB2,113.3 million in 2014 to RMB2,708.4 million in 2015, primarily due to an increase in the average balance of interest-bearing liabilities, from RMB70,597.3 million in 2014 to RMB103,551.3 million in 2015, partially offset by a decrease in the average cost of interest-bearing liabilities, from 2.99% in 2014 to 2.62% in 2015. The increase in the average balance of interest-bearing liabilities was primarily due to the increase in deposits from customers, financial assets sold under repurchase agreements, debt securities issued and borrowing from the central bank. The decrease in the average cost of interest-bearing liabilities was primarily due to the decrease in the average cost of financial assets sold under repurchase agreements, deposits from banks and other financial institutions, debt securities issued, placements from banks and other financial institutions, and borrowing from the central bank.

Interest expense increased 88.4% from RMB1,121.9 million in 2013 to RMB2,113.3 million in 2014, primarily due to an increase in the average balance of interest-bearing liabilities from RMB41,621.8 million in 2013 to RMB70,597.3 million in 2014, as well as an increase in the average cost of interest-bearing liabilities from 2.70% in 2013 to 2.99% in 2014. The increase in the average balance of interest-bearing liabilities was primarily due to the increase in deposits from customers, financial assets sold under repurchase agreements, deposits from banks and other financial institutions, placements from banks and other financial institutions, and borrowing from the central bank. The increase in the average cost of interest-bearing liabilities was primarily due to the increases in the average cost of deposits from customers, deposits from banks and other financial institutions, and placements from banks and other financial institutions.

Interest Expenses on Deposits from Customers

Interest expenses on deposits from customers represented 40.9%, 41.7% and 58.4% of interest expenses in 2013, 2014 and 2015, respectively.

The table below sets forth the average balance, interest expense and average cost for the components of deposit from customers for the periods indicated.

	Year ended December 31,								
	2013			2014			2015		
	Average balance(1)	Interest expense	Average cost	Average balance(1)	Interest expense	Average cost	Average balance(1)	Interest expense	Average cost
	(in millions of RMB, except percentages)								
Corporate deposits									
Time	1,358.9	40.7	2.99%	2,712.4	99.7	3.67%	11,531.4	461.4	4.00%
Demand	8,404.3	41.7	0.50	14,108.3	102.7	0.73	18,128.5	175.7	0.97
Subtotal	9,763.2	82.4	0.84%	16,820.7	202.4	1.20%	29,659.9	637.1	2.15%
Retail deposits									
Time	10,304.6	353.6	3.43%	18,259.0	645.3	3.53%	29,427.6	890.8	3.03%
Demand	5,880.5	22.4	0.38	8,439.6	33.3	0.40	10,479.6	54.9	0.52
Subtotal	16,185.1	376.0	2.32%	26,698.6	678.6	2.54%	39,907.2	945.7	2.37%
Total deposits from customers	**25,948.3**	**458.4**	**1.77%**	**43,519.3**	**881.0**	**2.02%**	**69,567.1**	**1,582.8**	**2.28%**

Note:
(1) Represents the average of daily balances.

Interest expenses on deposits from customers increased 79.7% from RMB881.0 million in 2014 to RMB1,582.8 million in 2015, primarily due to an increase in the average balance of deposits from customers, from RMB43,519.3 million in 2014 to RMB69,567.1 million in 2015, as well as an increase in the average cost of deposits from customers, from 2.02% in 2014 to 2.28% in 2015.

Interest expenses on deposits from customers increased 92.2% from RMB458.4 million in 2013 to RMB881.0 million in 2014, primarily due to an increase in the average balance of deposits from customers, from RMB25,948.3 million in 2013 to RMB43,519.3 million in 2014, as well as an increase in the average cost of deposits from customers, from 1.77% in 2013 to 2.02% in 2014.

2015 Compared to 2014

Interest expenses on corporate deposits increased 214.8% from RMB202.4 million in 2014 to RMB637.1 million in 2015, primarily due to an increase in the average balance of corporate deposits, from RMB16,820.7 million in 2014 to RMB29,659.9 million in 2015, as well as an increase in the average cost of corporate deposits, from 1.20% in 2014 to 2.15% in 2015. The increase in the average balance of corporate deposits was primarily attributable to (i) the consolidation of the financial results (including corporate deposits) of rural credit cooperatives and a rural cooperative bank that were acquired, and the village and township banks that were established and acquired, (ii) expansion of the branch network, and (iii) enhanced marketing efforts to attract corporate deposits. The increase in the average cost of corporate deposits primarily reflected (i) higher deposits interests rates driven by the continuing liberalization of interest rates on RMB-denominated deposits and (ii) increased proportion of time deposits with longer-term and higher-cost in line with market demand.

Interest expenses on retail deposits increased 39.4% from RMB678.6 million in 2014 to RMB945.7 million in 2015, primarily due to an increase in the average balance of retail deposits, from RMB26,698.6 million in 2014 to RMB39,907.2 million in 2015, partially offset by a decrease in the average cost of retail deposits, from 2.54% in 2014 to 2.37% in 2015. The increase in the average balance of retail deposits was primarily attributable to (i) the consolidation of the financial results (including retail deposits) of rural credit cooperatives and a rural cooperative bank that were acquired, and the village and township banks that were established and acquired, (ii) expansion of the branch network, and (iii) enhanced marketing efforts to attract retail deposits. The decrease in the average cost of retail deposits was primarily due to lower PBOC benchmark deposit interest rates.

2014 Compared to 2013

Interest expenses on corporate deposits increased 145.6% from RMB82.4 million in 2013 to RMB202.4 million in 2014, primarily due to an increase in the average balance of corporate deposits from RMB9,763.2 million in 2013 to RMB16,820.7 million in 2014, as well as an increase in the average cost of corporate deposits, from 0.84% in 2013 to 1.20% in 2014. The increase in the average balance of corporate deposits was primarily attributable to (i) the consolidation of the financial results (including corporate deposits) of rural credit cooperatives that were acquired and the village and township banks that were established, (ii) expansion of the branch network, and (iii) enhanced marketing efforts to attract corporate deposits. The increase in the average cost of corporate deposits reflected (i) higher deposits interests rates by the continuing liberalization of the interest rates on RMB-denominated deposits, and (ii) increased proportion of time deposits with longer term and higher cost in line with market demand.

Interest expenses on retail deposits increased 80.5% from RMB376.0 million in 2013 to RMB678.6 million in 2014, primarily due to an increase in the average balance of retail deposits, from RMB16,185.1 million in 2013 to RMB26,698.6 million in 2014. The increase in the average balance of retail deposits was primarily attributable to (i) the consolidation of the financial results (including retail deposits) of rural credit cooperatives that were acquired, and the village and township banks that were established, (ii) expansion of the branch network, and (iii) enhanced marketing efforts to attract retail deposits. The average cost of retail deposits increased slightly to 2.54% in 2014 from 2.32% in 2013.

Interest Expenses on Financial Assets Sold under Repurchase Agreements

2015 Compared to 2014

Interest expenses on financial assets sold under repurchase agreements decreased 13.9% from RMB681.7 million in 2014 to RMB586.8 million in 2015, mainly due to a decrease in the average cost of financial assets sold under repurchase agreements, from 4.15% in 2014 to 2.78% in 2015, partially offset by an increase in the average balance of financial assets sold under repurchase agreements, from RMB16,409.7 million in 2014 to RMB21,122.2 million in 2015. The decrease in the average cost was primarily due to a decrease in market interest rates attributable to lower PBOC benchmark deposit and loan interest rates and improved market liquidity. The increase in the average balance was the result of more repurchase transactions for managing liquidity and balancing risk and return.

2014 Compared to 2013

Interest expenses on financial assets sold under repurchase agreements increased 62.7% from RMB418.9 million in 2013 to RMB681.7 million in 2014, mainly due to an increase in the average balance of financial assets sold under repurchase agreements, from RMB8,855.2 million in 2013 to RMB16,409.7 million in 2014, partially offset by a decrease in the average cost of financial assets sold under repurchase agreements, from 4.73% in 2013 to 4.15% in 2014. The increase in the average balance was the result of more repurchase transactions for managing liquidity and balancing risk and return. The decrease in the average cost was primarily due to a decrease in market interest rates driven by greater market liquidity.

Interest Expenses on Deposits from Banks and Other Financial Institutions

2015 Compared to 2014

Interest expenses on deposits from banks and other financial institutions decreased 37.3% from RMB463.2 million in 2014 to RMB290.3 million in 2015, mainly due to a decrease in the average cost of deposits from banks and other financial institutions, from 5.06% in 2014 to 3.99% in 2015, and a decrease in the average balance of deposits from banks and other financial institutions, from RMB9,150.6 million in 2014 to RMB7,279.8 million in 2015. The decrease in the average cost was primarily due to the decrease in market interest rates attributable to lower PBOC benchmark deposit and loan interest rates and improved market liquidity. The decrease in the average balance was primarily due to a decrease in financing through deposits from banks and other financial institutions as a result of the issuance of certificates of interbank deposits with flexible terms and simplified issuance procedures.

2014 Compared to 2013

Interest expenses on deposits from banks and other financial institutions increased 144.7% from RMB189.3 million in 2013 to RMB463.2 million in 2014, mainly due to an increase in the average balance of deposits from banks and other financial institutions, from RMB5,889.8 million in 2013 to RMB9,150.6 million in 2014, and an increase in the average cost of deposits from banks and other financial institutions, from 3.21% in 2013 to 5.06% in 2014. The increase in the average balance was primarily due to the consolidation of the financial results of rural credit cooperatives that were acquired, and the village and township banks that were established. The increase in the average cost was primarily due to the Group's acceptance of long-term deposits from banks and other financial institutions with relatively higher costs to meet its liquidity needs.

Interest Expenses on Debt Securities Issued

2015 Compared to 2014

Interest expenses on debt securities issued increased 302.3% from RMB56.4 million in 2014 to RMB226.9 million in 2015, mainly due to the issuance of tier-two capital bonds at a face value of RMB800.0 million and interbank deposits with an aggregate nominal amount of RMB12,530.0 million in 2015.

2014 Compared to 2013

Interest expenses on debt securities issued increased 15.1% from RMB49.0 million in 2013 to RMB56.4 million in 2014, primarily due to the issuance of interbank deposits with the nominal amount of RMB700.0 million (due May 2015) and RMB1,000.0 million (due March 2015) in 2014.

Net Interest Spread and Net Interest Margin

Net interest spread is the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities. Net interest margin is the ratio of net interest income to the average balance of interest-earning assets.

Net interest spread decreased from 3.23% in 2014 to 2.79% in 2015, and net interest margin decreased from 3.40% in 2014 to 3.01% in 2015, primarily due to (i) a decrease in the average yield on loans and advances to customers, reflecting lower PBOC benchmark loan interest rates, and (ii) an increase in the average cost of deposits from customers, primarily reflecting the continual liberalization of RMB-denominated deposit interest rates, and customers' preference for time deposits with higher interest rates.

Net interest spread decreased from 3.24% in 2013 to 3.23% in 2014, and net interest margin slightly decreased from 3.36% in 2013 to 3.40% in 2014, primarily due to a decrease in average yield on loans and advances to customers and an increase in the average cost of deposits from customers, driven by the liberalization of interest rates in China. The impact of interest rate liberalization was partially offset by adjustment to the composition of the Group's assets and liabilities.

Net Fee and Commission Income

Net fee and commission income represented 9.4%, 9.3% and 5.2% of operating income in 2013, 2014 and 2015, respectively. The table below sets forth the principal components of net fee and commission income for the periods indicated.

	Year ended December 31,		
	2013	2014	2015
	(in millions of RMB)		
Fee and commission income			
Advisory fees	95.8	173.4	137.1
Syndicated loan service fees	42.2	97.5	30.4
Settlement and clearing fees	12.6	14.6	26.4
Agency service fees	4.6	12.0	17.9
Wealth management service fees	20.2	5.1	7.6
Bank card service fees	1.3	4.5	5.1
Others[(1)]	4.2	11.7	17.2
Subtotal	**180.9**	**318.8**	**241.7**
Fee and commission expenses	**(10.5)**	**(17.6)**	**(19.0)**
Net fee and commission income	**170.4**	**301.2**	**222.7**

Note:

(1) Primarily consists of fee income from loan business, fee and commission of guarantees and commitments and income from safe deposit box business.

Fee and Commission Income

Net fee and commission income decreased by 26.1% from RMB301.2 million in 2014 to RMB222.7 million in 2015, primarily due to the decreases in advisory fees and syndicated loan service fees.

Net fee and commission income increased by 76.8% from RMB170.4 million in 2013 to RMB301.2 million in 2014, primarily attributable to a combination of increases in advisory fees, syndicated loan service fees and agency service fees, partially offset by a decrease in wealth management service fees.

Advisory Fees

Advisory fees mainly included fees earned from the provision of advisory services. In 2013, 2014 and 2015, advisory fees were RMB95.8 million, RMB173.4 million and RMB137.1 million. The changes in advisory fees mainly reflected the change in the scale of the advisory business.

Syndicated Loan Service Fees

Syndicated loan service fees mainly included fees for arranging syndicated loans. Syndicated loan service fees decreased 68.8% from RMB97.5 million in 2014 to RMB30.4 million in 2015, mainly due to a decrease in the scale of syndicated loans reflecting improved market liquidity. Syndicated loan services fee increased 131.0% from RMB42.2 million in 2013 to RMB97.5 million in 2014, mainly because more syndicated loans were arranged to satisfy increased needs of medium-to-large customers for large-scale financing.

Settlement and Clearing Fees

Settlement and clearing fees mainly included fees from providing cash, money transfer, bank drafts, cheques, international remittance, bill collection and letter of credit services. Settlement and clearing fees increased 15.9% from RMB12.6 million in 2013 to RMB14.6 million in 2014, and further increased 80.8% to RMB26.4 million in 2015, primarily reflecting an increase in the volume of domestic settlement transactions.

Agency Service Fees

Agency service fees mainly included fees for providing entrusted loans and fee collection services. Agency service fees increased 160.9% from RMB4.6 million in 2013 to RMB12.0 million in 2014, and further increased 49.2% to RMB17.9 million in 2015, mainly due to an increase in the scale of entrusted loans.

Wealth Management Service Fees

Wealth management service fees mainly included commissions for selling and managing non-guaranteed wealth management products. Wealth management service fees increased 49.0% from RMB5.1 million in 2014 to RMB7.6 million in 2015, mainly reflecting an increase in the sale of non-guaranteed wealth management products driven by the enhanced marketing efforts and diversification of wealth management products and services. Wealth management service fees decreased 74.8% from RMB20.2 million in 2013 to RMB5.1 million in 2014, mainly as a result of (i) the CBRC policy changes in 2013 that set an upper limit on investment in high-yield assets that affected the yield on the wealth management products, and (ii) a decrease in commission rates due to increased competition.

Bank Card Services Fees

Bank card services fee mainly included fees charged on debit cards. Bank card services fee increased 246.2% from RMB1.3 million in 2013 to RMB4.5 million in 2014, and further increased 13.3% to RMB5.1 million in 2015, primarily attributable to the increased number of debit cards.

Fee and Commission Expenses

Fee and commission expenses mainly included fees paid to third parties for settlement and clearing services. Fee and commission expenses increased 67.6% from RMB10.5 million in 2013 to RMB17.6 million in 2014, and further increased by 8.0% to RMB19.0 million in 2015, mainly due to an increase in the volume of domestic settlement transactions.

Net Gains arising from investment securities

Net gains arising from investment securities included net gains from selling investment securities and other financial assets and revaluation gains resulting from the reclassification of other consolidated income to profits or losses upon the disposal of assets.

Net gains arising from investment securities increased 103.9% from RMB79.1 million in 2013 to RMB161.3 million in 2014, and further increased 113.6% to RMB344.5 million in 2015. The increase was mainly due to the disposition of certain investment assets in view of decreased market interest rates.

Net Trading Gains

Net trading gains primarily include gains from selling, and the fair value changes, of debt securities held for trading and wealth management products issued by other financial institutions. Net trading gains increased 308.4% from RMB32.3 million in 2014 to RMB131.9 million in 2015, mainly due to (i) an increase in the fair value of debt securities held for trading due to a decrease in market interest rates, and (ii) an increase in investments in guaranteed wealth management products. Net trading gains decreased 44.2% from RMB57.9 million in 2013 to RMB32.3 million in 2014, mainly due to a decrease in trading volume in debt securities held for trading.

Dividend Income

Dividend income increased 40.1% from RMB30.4 million in 2013 to RMB42.6 million in 2014, and further increased 62.7% to RMB69.3 million in 2015. The increase was mainly due to higher dividends received from rural commercial banks and other institutions resulting from their increased profitability.

Gain on Disposal of Subsidiaries

In 2015, the Group had gains from disposal of subsidiaries of RMB12.8 million, which was primarily due to the disposition of the Bank's 10% equity interest in Jilin Shulan Rural Commercial Bank to an independent third party in December 2015.

Net Exchange (Losses)/Gains

Net exchange (losses)/gains mainly included net gains arising out of foreign exchange settlement and foreign exchange transactions. The Group had net exchange losses of RMB0.4 million in 2013, and net exchange gains of RMB6.3 million and RMB6.5 million in 2014 and 2015, respectively, primarily reflecting the fluctuation of foreign exchange rates.

Other Operating Income

Other operating income mainly included government subsidies. Other operating income increased 519.2% from RMB21.9 million in 2013 to RMB135.6 million in 2014, which primarily reflected (i) government subsidies received by the village and township banks that were established, and (ii) the consolidation of the financial results of Jilin Shulan Rural Commercial Bank, and the recognition of the difference between the consideration paid for the acquisition and the net assets of Jilin Shulan Rural Commercial Bank as other operating income.

Operating Expenses

The table below sets forth the principal components of operating expenses for the periods indicated.

	Year ended December 31,					
	2013		2014		2015	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(in millions of RMB, except percentages)					
Staff costs	471.0	53.6%	776.9	52.4%	1,119.4	54.8%
General management and administrative expenses	197.2	22.5	329.5	22.2	402.7	19.7
Property and equipment expenses	137.9	15.7	228.0	15.4	336.0	16.4
Business tax and surcharges	72.0	8.2	147.7	10.0	186.0	9.1
Total	**878.1**	**100.0%**	**1,482.1**	**100.0%**	**2,044.1**	**100.0%**

Operating expenses increased 68.8% from RMB878.1 million in 2013 to RMB1,482.1 million in 2014 and further increased 37.9% to RMB2,044.1 million in 2015. The increase was primarily due to the increase in staff costs.

Staff Costs

Staff costs were the largest component of operating expenses, representing 53.6%, 52.4% and 54.8% of total operating expenses in 2013, 2014 and 2015, respectively.

The table below sets forth the components of staff costs for the periods indicated.

	Year ended December 31,		
	2013	2014	2015
	(in millions of RMB)		
Salaries and bonuses	344.3	571.3	809.0
Social insurance	70.1	112.1	175.4
Staff welfares	28.4	45.7	63.8
Housing allowances	18.9	32.2	49.2
Labor union and staff education expenses	9.3	15.6	22.0
Staff costs	**471.0**	**776.9**	**1,119.4**

Staff costs increased 64.9% from RMB471.0 million in 2013 to RMB776.9 million in 2014, and further increased by 44.1% to RMB1,119.4 million in 2015. The increase in staff costs primarily reflected (i) an increase in the number of employees because of the acquisitions and organic growth and the expansion of the branch network, and (ii) adjustment of the remuneration packages to attract and retain talent.

General Management and Administrative Expenses

Other operating expenses mainly included business promotion fees, transportation fee in relation to the delivery of cash and repair expenses. General management and administrative expenses increased 67.1% from RMB197.2 million in 2013 to RMB329.5 million in 2014 and further increased by 22.2% to RMB402.7 million in 2015, primarily reflecting the Group's business growth.

Property and Equipment Expenses

Property and equipment expenses increased 65.3% from RMB137.9 million in 2013 to RMB228.0 million in 2014, and further increased by 47.4% to RMB336.0 million in 2015. The increase in property and equipment expenses was mainly due to an increase in depreciation on properties owned by newly established branches and rent for leased properties.

Business Tax and Surcharges

The Group pays taxes for interest income from loans, fee and commission income and securities trading gains. Business tax and surcharges increased 105.1% from RMB72.0 million in 2013 to RMB147.7 million in 2014 and further increased 25.9% to RMB186.0 million in 2015. The increases in business tax and surcharges were in line with the increase in taxable income driven by its business growth.

Impairment Losses on Assets

The table below sets forth the principal components of impairment losses on assets for the periods indicated.

	Year ended December 31,		
	2013	2014	2015
	(in millions of RMB)		
Loans and advances to customers	216.4	185.6	327.0
Debt securities classified as receivables	—	—	19.3
Other receivables	—	0.1	3.8
Property and equipment[1]	0.2	0.0	—
Impairment losses on assets	**216.6**	**185.7**	**350.1**

Note:
(1) Primarily consist of property and equipment and repossessed assets.

Impairment losses on assets increased 88.5% from RMB185.7 million in 2014 to RMB350.1 million in 2015, mainly due to (i) an increase in the scale of loans and other investment assets, and (ii) efforts to proactively increase provisions for impairment losses on loans to reflect macro-economic conditions in accordance with the Group's risk management policies. Impairment losses on assets decreased 14.3% from RMB216.6 million in 2013 to RMB185.7 million in 2014, mainly because in accordance with regulatory requirements, the Group dynamically adjusted provisions for losses from loans and advances to customers .

Profit before Tax

As a result of the foregoing, profit before tax increased 118.2% from RMB723.2 million in 2013 to RMB1,577.9 million in 2014 and further increased 18.9% to RMB1,875.9 million in 2015.

Income Tax Expense

The table below sets forth a reconciliation between income tax expense calculated based on the applicable statutory income tax rate and actual income tax expense for the periods indicated.

	Year ended December 31,		
	2013	2014	2015
	(in millions of RMB)		
Profit before tax	723.2	1,577.9	1,875.9
Tax at domestic income tax rate of 25%	180.8	394.4	468.9
Tax effect of results of associates attributable to the Company	—	—	(0.5)
Add tax effect of expenses not deductible for tax purpose(1)	21.7	4.2	54.0
Tax effect of income that is not taxable for tax purpose(2)	(21.8)	(54.0)	(37.9)
Adjustment of income taxes for previous years	—	2.4	(6.2)
Tax calculated at favorable tax rate	—	—	(8.9)
Decrease in deferred income tax at the beginning of the period resulted from the change in tax rate	—	—	4.3
Income tax expense	**180.7**	**347.0**	**473.7**

Notes:

(1) Primarily consists of a portion of expenditures such as entertainment expense and donations, which exceed the tax deduction limits in accordance with Mainland China tax regulation.

(2) Primarily consists of interest income from the Mainland China government bonds, government grants and income from equity investment between qualified resident enterprises such as dividends and bonuses, which are exempted from income tax under the Mainland China tax regulation.

Income tax expense increased 92.1% from RMB180.7 million in 2013 to RMB347.0 million in 2014, and further increased 36.5% to RMB473.7 million in 2015. The increase in income tax expense was in line with the increase in profit before tax. Effective tax rates were 25.0%, 22.0% and 25.3% in 2013, 2014 and 2015, respectively. The relative lower effective tax rate in 2014 was mainly due to higher non-taxable income (including dividend income, interest income from treasury bonds and local government bonds and interest income from small loans to rural households and individuals).

As of the Latest Practicable Date and during the Track Record Period, the Group had fulfilled all its tax obligations and did not have any unresolved tax disputes.

Profit for the Year

As a result of the foregoing, profit for the year increased 126.8% from RMB542.5 million in 2013 to RMB1,230.9 million in 2014 and further increased 13.9% to RMB1,402.2 million in 2015.

SUMMARY OF SEGMENT RESULTS

Summary of Business Segments

The Group operates three principal lines of business: corporate banking, retail banking and treasury operations. The table below sets forth the Group's operating income for each of its principal business segments for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2013		2014		2015		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
							(unaudited)			
	(in millions of RMB, except percentages)									
Corporate banking[1]	919.8	50.6%	1,534.3	47.3%	1,372.2	32.2%	680.6	40.8%	941.7	35.5%
Retail banking	646.6	35.6	982.1	30.3	1,359.5	31.9	481.6	28.9	879.7	33.2
Treasury operations	199.6	11.0	544.8	16.8	1,352.5	31.7	424.4	25.5	714.0	26.9
Others[2]	51.9	2.8	184.5	5.6	183.7	4.2	79.8	4.8	115.4	4.4
Total operating income	**1,817.9**	**100.0%**	**3,245.7**	**100.0%**	**4,267.9**	**100.0%**	**1,666.4**	**100.0%**	**2,650.8**	**100.0%**

Notes:

(1) Loans to SMEs accounted for 96.6%, 96.9%, 93.1% and 92.0% of the Group's total corporate loans as of December 31, 2013, 2014 and 2015 and June 30, 2016, respectively.

(2) Primarily represent assets, liabilities, income and expenses which cannot be directly attributable or cannot be allocated to a segment on a reasonable basis.

Corporate banking business accounted for 50.6%, 47.3%, 32.2%, 40.8% and 35.5% of total operating income in 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, respectively. The decrease in income from corporate banking business as a percentage of total operating income was mainly due to a decrease in net interest spread resulting from a decrease in the average yield on corporate loans and an increase in the average cost of corporate deposits. Retail banking business accounted for 35.6%, 30.3%, 31.9%, 28.9% and 33.2% of total operating income in 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016. The fluctuation in income from retail banking business as a percentage of total operating income was mainly due to fluctuation in net interest spread resulting from a decrease in the average yield on retail loans. Income from treasury operations as a percentage of total operating income increased from 11.0% in 2013 to 16.8% in 2014 and 31.7% in 2015, and from 25.5% in the six months ended June 30, 2015 to 26.9% in the same period of 2016. The increase in income from treasury operations as a percentage of total operating income was primarily due to (i) an increase in net interest income resulting from the increases in the scale, driven by the Group's proactive management of its assets and liabilities management, and (ii) an increase in gains from trading investment securities and other financial assets.

The following table sets forth the operating results of each of the Group's main business segments for the periods indicated.

	Year ended December 31, 2013				
	Corporate banking	Retail banking	Treasury operations	Other businesses[1]	Total
	(in millions of RMB)				
External interest income, net[2]	832.3	42.6	583.7	—	1,458.6
Inter-segment interest income/(expenses), net[3]	(50.6)	592.0	(541.4)	—	—
Net interest income	781.7	634.6	42.3	—	1,458.6
Net fees and commissions income	138.1	12.0	20.3	—	170.4
Net income from other businesses[4]	—	—	137.0	51.9	188.9
Operating income	**919.8**	**646.6**	**199.6**	**51.9**	**1,817.9**
Operating expenses	(481.3)	(339.1)	(49.3)	(8.4)	(878.1)
Impairment losses on assets	(89.8)	(126.5)	—	(0.3)	(216.6)
Profit before tax	**348.7**	**181.0**	**150.3**	**43.2**	**723.2**

	Year ended December 31, 2014				
	Corporate banking	Retail banking	Treasury operations	Other businesses[1]	Total
	(in millions of RMB)				
External interest income/(expenses), net[2]	1,473.1	(32.3)	1,125.6	—	2,566.4
Inter-segment interest income/(expenses), net[3]	(214.4)	1,000.1	(785.7)	—	—
Net interest income	1,258.7	967.8	339.9	—	2,566.4
Net fees and commissions income	275.6	14.3	11.3	—	301.2
Net income from other businesses[4]	—	—	193.6	184.5	378.1
Operating income	**1,534.3**	**982.1**	**544.8**	**184.5**	**3,245.7**
Operating expenses	(770.2)	(486.9)	(184.0)	(41.0)	(1,482.1)
Impairment losses on assets	(137.5)	(48.1)	—	(0.1)	(185.7)
Profit before tax	**626.6**	**447.1**	**360.8**	**143.4**	**1,577.9**

	Year ended December 31, 2015				
	Corporate banking	Retail banking	Treasury operations	Other businesses[1]	Total
	(in millions of RMB)				
External interest income, net[2]	1,525.0	88.0	1,759.2	—	3,372.2
Inter-segment interest income/(expenses), net[3]	(240.3)	1,250.4	(1,010.1)	—	—
Net interest income	1,284.7	1,338.4	749.1	—	3,372.2
Net fees and commissions income	87.5	21.1	114.1	—	222.7
Net income from other businesses[4]	—	—	489.3	183.7	673.0
Operating income	**1,372.2**	**1,359.5**	**1,352.5**	**183.7**	**4,267.9**
Operating expenses	(860.8)	(797.9)	(325.7)	(59.7)	(2,044.1)
Impairment losses on assets	(330.4)	3.4	(19.3)	(3.8)	(350.1)
Profit attributable to associates	—	—	—	2.2	2.2
Profit before tax	**181.0**	**565.0**	**1,007.5**	**122.4**	**1,875.9**

	Six months ended June 30, 2015				
	Corporate banking	Retail banking	Treasury operations	Other businesses[1]	Total
	(unaudited) (in millions of RMB)				
External interest income/(expenses), net[2]	751.6	(115.2)	775.0	—	1,411.4
Inter-segment interest income/(expenses), net[3]	(95.9)	578.4	(482.5)	—	—
Net interest income	655.7	463.2	292.5	—	1,411.4
Net fees and commissions income	24.9	18.4	37.1	—	80.4
Net income from other businesses[4]	—	—	94.8	79.8	174.6
Operating income	**680.6**	**481.6**	**424.4**	**79.8**	**1,666.4**
Operating expenses	(363.5)	(257.3)	(107.5)	(28.6)	(756.9)
Impairment losses on assets	(145.7)	(49.9)	(11.6)	—	(207.2)
Profit attributable to associates	—	—	—	0.6	0.6
Profit before tax	**171.4**	**174.4**	**305.3**	**51.8**	**702.9**

	Six months ended June 30, 2016				
	Corporate banking	Retail banking	Treasury operations	Other businesses[1]	Total
	(in millions of RMB)				
External interest income, net[2]	646.9	(6.7)	1,422.2	—	2,062.4
Inter-segment interest income/(expenses), net[3]	240.6	860.2	(1,100.8)	—	—
Net interest income	887.5	853.5	321.4	—	2,062.4
Net fees and commissions income	54.2	26.2	180.3	—	260.7
Net income from other businesses[4]	—	—	212.3	115.4	327.7
Operating income	**941.7**	**879.7**	**714.0**	**115.4**	**2,650.8**
Operating expenses	(471.8)	(422.1)	(174.3)	(26.4)	(1,094.6)
Impairment losses on assets	(171.4)	(82.0)	8.3	(0.2)	(245.3)
Profit attributable to associates	—	—	—	3.9	3.9
Profit before tax	**298.5**	**375.6**	**548.0**	**92.7**	**1,314.8**

Notes:

(1) Primarily include rental income of property and equipment.

(2) Refers to net income and expenses from third parties.

(3) Refers to inter-segment expenses and consideration of transfers.

(4) Primarily includes net trading gains and losses and net gains/(expenses) from financial assets investments.

Summary of Geographical Segment Information

In presenting information on the basis of geographical segments, operating income is allocated based on the places of registration of the respective bank that generate the income. The table below sets forth the operating income attributable to each of the geographical segments for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2013		2014		2015		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
							(unaudited)			
	(in millions of RMB, except percentages)									
Jilin	1,662.0	91.4%	2,892.3	89.1%	3,860.1	90.4%	1,507.3	90.5%	2,438.0	92.0%
Other Regions[(1)]	155.9	8.6	353.4	10.9	407.8	9.6	159.1	9.5	212.8	8.0
Total operating income	**1,817.9**	**100.0%**	**3,245.7**	**100.0%**	**4,267.9**	**100.0%**	**1,666.4**	**100.0%**	**2,650.8**	**100.0%**

Note:
(1) Primarily include Heilongjiang, Guangdong, Hebei, Shandong, Anhui, Hubei, Hainan, Tianjin and Shaanxi.

Operating income from Jilin province as a percentage of total operating income increased from 90.5% in the six months ended June 30, 2015 to 92.0% in the same period of 2016, primarily reflecting the consolidation of the financial results of Jilin Gongzhuling Rural Commercial Bank and Jilin Chuncheng Rural Commercial Bank that were acquired in October 2015. Operating income from Jilin province accounted for 91.4%, 89.1% and 90.4% of total operating income in 2013, 2014 and 2015, respectively. The decrease in operating income from Jilin province as a percentage of total operating income was mainly attributable to the growth of the businesses and establishment of additional branches in regions other than Jilin.

CASH FLOWS

The table below sets forth cash flows for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
	(in millions of RMB)				
Net cash from/(used in) operating activities	11,746.0	(226.6)	22,472.0	2,826.3	(6,464.0)
Net cash from/(used in) investing activities	(5,150.3)	2,043.6	(16,489.9)	(9,200.6)	(11,686.5)
Net cash from/(used in) financing activities	1,146.0	2,833.3	8,959.7	2,799.4	1,556.5
Effect of foreign exchange rate changes on cash and cash equivalents	—	—	—	—	—
Net increase/(decrease) in cash and cash equivalents	**7,741.7**	**4,650.3**	**14,941.8**	**(3,574.9)**	**(16,594.0)**

Cash Flows from Operating Activities

Cash inflows from operating activities are primarily attributable to (i) net increase in deposits from customers, (ii) net increase in financial assets sold under repurchase agreements, (iii) net decrease in financial assets held under resale agreements, and (iv) net increase in borrowing from central banks.

Cash outflows from operating activities are primarily attributable to (i) net increase in loans and advances to customers, (ii) net increase in financial assets at fair value through profit or loss, (iii) net increase in deposits and placements with banks and other financial institutions, (iv) net decrease in deposits and placements from banks and other financial institutions, and (v) net increase in deposits with the central bank.

The Group had net cash from operating activities of RMB2,826.3 million in the six months ended June 30, 2015, and net cash used in operating activities of RMB6,464.0 million in the same period of 2016, primarily attributable to an increase in deposits and placements with banks and other financial institutions.

The Group had net cash used in operating activities of RMB226.6 million in 2014, and net cash from operating activities of RMB22,472.0 million in 2015, primarily attributable to an increase in deposits from customers and financial assets sold under repurchase agreements and a decrease in financial assets held under resale agreements, which was partially offset by an increase in loans and advances to customers and financial assets at fair value through profit or loss.

The Group had net cash from operating activities of RMB11,746.0 million in 2013 and net cash used in operating activities of RMB226.6 in 2014, primarily attributable to an increase in loans and advances to customers, deposits and placements with banks and other financial institutions, deposits with the central bank and financial assets at fair value through profit or loss, and a decrease in financial assets sold under repurchase agreements.

Cash Flows from Investing Activities

Cash inflows from investing activities primarily consisted of proceeds from disposition of investments, acquisition of subsidiaries, dividend income and disposition of property and equipment and other assets. In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, proceeds from the disposition of investments were RMB72,763.4 million, RMB231,264.2 million, RMB313,573.1 million, RMB178,100.0 million and RMB202,005.7 million, respectively. Income from acquisition of subsidiaries (including rural commercial banks and village and township banks) were RMB2,189.4 million, RMB598.4 million, RMB258.1 million, RMB0.0 million and RMB4.2 million, respectively. Dividend income was RMB30.4 million, RMB42.6 million, RMB69.3 million, RMB69.3 million and RMB106.5 million, respectively. Proceeds from disposition of property and equipment and other assets were respectively RMB34.2 million, RMB15.4 million, RMB13.2 million, RMB1.5 million and RMB6.5 million.

Cash outflows from investing activities primarily consisted of payments on investments and purchase of property and equipment and other assets. In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, payments on investments were RMB79,805.8 million, RMB229,315.5 million, RMB327,657.5 million, RMB187,225.0 million and RMB213,313.8 million, respectively, and payments for acquisition of property and equipment and other assets were RMB361.8 million, RMB551.6 million, RMB899.8 million, RMB146.3 million and RMB495.6 million, respectively. In addition, the Group had cash outflows from disposition of subsidiaries of RMB1,846.2 million in 2015, mainly because (i) the Bank agreed to terminate the acting-in-concert agreement with four shareholders of Haikou United Rural Commercial Bank in 2015 and, therefore, ceased to consolidate its financial results and (ii) the Group ceased to consolidate the financial results of Jilin Shulan Rural Commercial Bank, upon the sale of the Bank's 10% interest to an independent third party in 2015.

Cash Flows from Financing Activities

Cash inflows from financing activities primarily consisted of proceeds from issuance of equity and debt securities, government subsidies, and capital premiums from investments. See "Assets and Liabilities—Liabilities and Sources of Funds—Debt Securities Issued".

Cash outflows from financing activities primarily consisted of principal and interest payments on debt securities, and cash dividends. In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, the Bank paid principal and interest on issued tier-two capital bonds, subordinated fixed rate bonds and interbank certificates of RMB49.0 million, RMB53.1 million, RMB6,741.0 million, RMB3,240.2 million and RMB11,285.7 million, respectively. In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, the Bank paid cash dividends of RMB230.7 million, RMB321.0 million, RMB414.6 million, RMB414.6 million and RMB883.4 million, respectively.

LIQUIDITY

The Group funds its loan and investment portfolios principally through customer deposits. Deposits from customers have been, and the Bank believes will continue to be, a stable source of funding. Customer deposits with remaining maturities of less than one year represented 85.9%, 81.7%, 88.0% and 83.7% of total deposits from customers as of December 31, 2013, 2014 and 2015 and June 30, 2016, respectively.

The Group manages liquidity primarily by monitoring the maturities of assets and liabilities to ensure that it has sufficient funds to meet obligations as they become due. The Group has been focusing on maintaining stable sources of funding and increasing its customer deposits. The Group also invests in a significant amount of assets with high liquidity, such as government bonds and policy bank bonds, as well as financial assets with short maturities, such as financial assets held under resale agreements and discounted bills. See "Risk Management—Risk Management of the Bank—Liquidity Risk Management" and "Risk Management—Risk Management of the Subsidiary Banks—Liquidity Risk Management" for details.

The table below sets forth the remaining maturities of the Group's assets and liabilities as of June 30, 2016.

	Indefinite	Overdue/ on demand	Less than three months	Between three months and one year	Between one year and five years	More than five years	Total
	(in millions of RMB)						
Assets							
Loans and advances to customers	943.8	85.1	7,699.3	24,999.8	15,564.3	2,289.0	51,581.3
Cash and deposits with the central bank	11,326.8	8,616.4	—	—	—	—	19,943.2
Deposits with banks and other financial institutions	—	2,537.6	6,875.0	16,982.2	—	—	26,394.8
Financial assets held under resale agreements	—	—	8,027.0	—	—	—	8,027.0
Debt securities classified as receivables	—	—	550.0	2,267.7	5,136.1	—	7,953.8
Financial assets at fair value through profit or loss	—	—	5,073.5	7,216.8	976.6	130.8	13,397.7
Available-for-sale financial assets	1,090.4	125.4	3,584.6	7,084.0	7,608.8	6,025.3	25,518.5
Held-to-maturity investments	—	—	110.0	101.8	607.1	1,025.6	1,844.5
Interests receivable	—	5.5	179.0	222.1	2.8	—	409.4
Others(1)	4,663.3	1.0	—	—	231.6	—	4,895.9
Total assets	**18,024.3**	**11,371.0**	**32,098.4**	**58,874.4**	**30,127.3**	**9,470.7**	**159,966.1**
Liabilities							
Deposits from customers	—	41,204.7	16,347.1	32,018.0	17,186.1	242.9	106,998.8
Financial assets sold under repurchase agreements	—	—	20,580.1	—	—	—	20,580.1
Debt securities issued	—	—	3,441.9	6,310.2	1,495.9	—	11,248.0
Deposits from banks and other financial institutions	—	484.5	3,878.1	1,425.0	30.0	—	5,817.6
Interests payable	—	1,346.2	102.8	104.3	—	—	1,553.3
Borrowing from the central bank	—	—	20.0	319.5	16.4	8.1	364.0
Placements from banks and other financial institutions	—	2.5	160.0	—	—	—	162.5
Others(2)	—	424.1	350.8	—	—	—	774.9
Total liabilities	**—**	**43,462.0**	**44,880.8**	**40,177.0**	**18,728.4**	**251.0**	**147,499.2**
Net working capital	**18,024.3**	**(32,091.0)**	**(12,782.4)**	**18,697.4**	**11,398.9**	**9,219.7**	**12,466.9**

Notes:

(1) Primarily include property and equipment, goodwill and deferred assets from income tax.

(2) Primarily include accrued staff costs and taxes payable.

CAPITAL RESOURCES

Shareholders' Equity

Shareholders' equity increased 67.4% from RMB4,679.8 million as of December 31, 2013 to RMB7,834.3 million as of December 31, 2014, and further increased 51.3% to RMB11,857.2 million as of December 31, 2015. As of June 30, 2016, the shareholders' equity amounted to RMB12,466.9 million.

The table below sets forth the changes in shareholders' equity for the periods indicated.

	Shareholders' equity
	(in millions of RMB)
As of January 1, 2013	**2,692.1**
Share capital	566.1
Capital reserve	673.6
Investment revaluation reserve	(42.7)
Surplus reserve	47.3
General reserve	140.4
Retained earnings	116.2
Minority interests	486.8
As of December 31, 2013	**4,679.8**
Share capital	456.0
Capital reserve	362.3
Investment revaluation reserve	43.6
Surplus reserve	87.4
General reserve	253.5
Retained earnings	441.1
Minority interests	1,510.6
As of December 31, 2014	**7,834.3**
Share capital	888.7
Capital reserve	1,645.8
Investment revaluation reserve	76.1
Surplus reserve	120.7
General reserve	402.4
Retained earnings	278.2
Minority interests	611.0
As of December 31, 2015	**11,857.2**
Share capital	—
Capital reserve	37.9
Investment revaluation reserve	1.4
Surplus reserve	—
General reserve	—
Retained earnings	(16.7)
Minority interests	587.1
As of June 30, 2016	**12,466.9**

Capital Adequacy

Each PRC commercial bank is required to comply with CBRC's capital adequacy ratio requirements. Since January 1, 2013, the Group has calculated and disclosed capital adequacy ratios in accordance with the Capital Administrative Measures, which required China's commercial banks (except systematically important banks) to maintain (i) minimum capital adequacy ratios of 8.5%, 8.9%, 9.3%, and 9.7%, (ii) minimum tier-one capital adequacy ratios of 6.5%, 6.9%, 7.3%, and 7.7%, and (iii) minimum core tier-one capital adequacy ratios of 5.5%, 5.9%, 6.3%, and 6.7%, respectively, as of December 31, 2013, 2014, 2015 and 2016.

The following table sets forth certain information relating to the Group's capital adequacy ratio as of the dates indicated.

	As of December 31,			As of the six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
	(in millions of RMB, except percentages)				
Core capital					
Paid-up capital	1,950.1	2,406.1	3,294.8	3,094.8	3,294.8
Qualifying portion of capital reserve	1,301.0	1,663.3	3,309.1	2,576.5	3,347.0
Surplus reserve	146.6	234.0	354.7	234.0	354.7
General risk reserve	369.5	622.8	1,025.3	621.2	1,025.3
Investment revaluation reserve	(42.7)	0.9	77.0	20.1	78.4
Retained earnings	368.0	809.2	1,087.4	905.2	1,070.7
Qualifying portions of minority shareholders' equities	587.3	2,098.0	2,708.9	1,837.1	3,296.0
Core tier-one capital deductions(1)	(840.6)	(897.0)	(1,201.1)	(861.1)	(1,226.9)
Net core tier-one capital	**3,839.2**	**6,937.3**	**10,656.1**	**8,427.8**	**11,240.0**
Other tier-one capital(2)	—	—	—	—	—
Net tier-one capital	**3,839.2**	**6,937.3**	**10,656.1**	**8,427.8**	**11,240.0**
Tier-two capital					
Instruments issued and share premium	630.0	560.0	1,290.0	1,290.0	1,220.0
Surplus reserve for loan impairment	330.2	545.5	652.1	676.4	822.5
Net capital base	**4,799.4**	**8,042.8**	**12,598.2**	**10,394.2**	**13,282.5**
Total risk-weighted assets	**31,459.3**	**50,200.0**	**85,325.6**	**64,632.4**	**93,028.0**
Core tier-one capital adequacy ratio	**12.20%**	**13.82%**	**12.49%**	**13.04%**	**12.08%**
Tier-one capital adequacy ratio	**12.20%**	**13.82%**	**12.49%**	**13.04%**	**12.08%**
Capital adequacy ratio	**15.26%**	**16.02%**	**14.76%**	**16.08%**	**14.28%**

Notes:

(1) Primarily includes other intangible assets excluding land use rights, goodwill and deferred tax recognized for tax losses.

(2) Primarily includes tier-one capital instruments such as preferred shares and their premiums.

The Group may take various measures to comply with the applicable regulatory capital adequacy requirements, including (i) raising capital by issuing new shares, (ii) issue of tier-two capital bonds, (iii) increasing retained earnings by continually improving profitability and (iv) managing the growth of risk-weighted assets.

OFF-BALANCE SHEET COMMITMENTS

Off-balance sheet commitments primarily consist of bank acceptances, letters of guarantee, operating lease commitments and capital commitments. The table below sets forth the contractual amounts of off-balance sheet commitments as of the dates indicated.

	As of December 31,			As of June 30,
	2013	2014	2015	2016
	(in millions of RMB)			
Credit commitments:				
Bank acceptances[1]	175.4	1,008.0	2,233.4	2,595.2
Letters of credit	—	—	—	24.3
Letters of guarantee[2]	—	22.4	30.7	300.0
Subtotal	**175.4**	**1,030.4**	**2,264.1**	**2,919.5**
Operating lease commitments	**417.6**	**626.7**	**722.9**	**812.1**
Capital commitments	**55.4**	**109.0**	**269.3**	**321.4**
Total	**648.4**	**1,766.1**	**3,256.3**	**4,053.0**

Notes:

(1) Bank acceptances refer to the Group's undertakings to pay bank bills drawn on its customers.

(2) The Group issues letters of credit and guarantee to third parties to guarantee its customers' contractual obligations.

Off-balance sheet commitments increased by 172.4% from RMB648.4 million as of December 31, 2013 to RMB1,766.1 million as of December 31, 2014, and further increased by 84.4% to RMB3,256.3 million as of December 31, 2015. As of June 30, 2016, off-balance sheet commitments amounted to RMB4,053.0 million. The increase in off-balance sheet commitments was primarily due to the growth of the bank acceptances business driven by the expansion of the Group's customer base and increased customer demand.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The table below sets forth the face value of the Group's known contractual obligations by remaining contract maturity as of June 30, 2016.

	Up to 1 year	1 year up to 5 years	Over 5 years	Total
	(in millions of RMB)			
Certain on-balance sheet contractual obligations				
Subordinated fixed rate bonds	—	698.0	—	698.0
Tier-two capital bonds	—	797.9	—	797.9
Interbank certificates	9,752.1	—	—	9,752.1
Off-balance sheet contractual obligations				
Loan commitments	2,642.6	276.9	—	2,919.5
Total	**12,394.7**	**1,772.8**	**—**	**14,167.5**

RELATED PARTY TRANSACTIONS

During the Track Record Period, the Group entered into transactions with certain of its related parties, such as taking deposits from and extending credit facilities and providing other banking services to the relevant related parties. These transactions were conducted on normal commercial terms and in the ordinary course of the Group's business. The Bank's directors believe that these related party transactions were carried out on an arm's-length basis and would not distort the Group's results of operations during the Track Record Period or make such results not reflective of the Group's future performance. See "Connected Transactions" and Note 49 to the Accountant's Report attached hereto as "Appendix I—Accountant's Report" to this prospectus.

QUANTITATIVE AND QUALITATIVE ANALYSIS OF MARKET RISK

Market risk is the risk that values of the Group's assets and liabilities or net income will be adversely affected by changes in market conditions. It mainly includes interest rate risk and foreign exchange risk. Such risks may arise from movements in market variables such as interest rates, foreign exchange rates, share price fluctuations and other market changes that affect risk-sensitive market instruments.

Interest Rate Risk

Interest rate risk primarily arises from mismatches between the repricing periods of interest-earning assets, interest-bearing liabilities and off-balance sheet items. The Group is also subject to trading interest rate risk arising from its treasury's investment portfolio. The Group assesses interest rate risks through sensitivity analysis and manage interest rate risks by adjusting the maturity structure of its assets and liabilities from time to time.

Repricing Gap Analysis

The table below sets forth the results of the Group's gap analysis based on the earlier of (i) the expected next repricing dates and (ii) the final maturity dates for its assets and liabilities as of June 30, 2016.

	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years	Total
			(in millions of RMB)			
Assets						
Loans and advances to customers	—	13,687.4	26,335.7	11,338.8	219.4	51,581.3
Investment securities and other financial assets	1,090.4	9,443.5	16,670.3	14,328.6	7,181.7	48,714.5
Cash and deposits with the central bank	689.9	19,253.3	—	—	—	19,943.2
Deposits with banks and other financial institutions	—	9,412.6	16,982.2	—	—	26,394.8
Financial assets held under resale agreement	—	8,027.0	—	—	—	8,027.0
Placements with banks and other financial institutions	—	—	—	—	—	—
Interests receivable	409.4	—	—	—	—	409.4
Others(1)	4,895.9	—	—	—	—	4,895.9
Total assets	**7,085.6**	**59,823.8**	**59,988.2**	**25,667.4**	**7,401.1**	**159,966.1**
Liabilities						
Deposits from customers	—	57,551.8	32,018.0	17,186.1	242.9	106,998.8
Financial assets sold under repurchase agreements	—	20,580.1	—	—	—	20,580.1
Debt securities issued	—	3,441.9	6,310.2	1,495.9	—	11,248.0
Deposits from banks and other financial institutions	—	4,362.6	1,425.0	30.0	—	5,817.6
Interests payable	1,553.2	—	—	—	—	1,553.2
Borrowing from the central bank	—	20.0	319.5	16.4	8.1	364.0
Placements from banks and other financial institutions	—	162.5	—	—	—	162.5
Others(2)	775.0	—	—	—	—	775.0
Total liabilities	**2,328.2**	**86,118.9**	**40,072.7**	**18,728.4**	**251.0**	**147,499.2**
Total repricing gaps	**4,757.4**	**(26,295.1)**	**19,915.5**	**6,939.0**	**7,150.1**	**12,466.9**

Notes:

(1) Primarily includes property and equipment, goodwill and deferred assets from income tax.

(2) Primarily includes accrued staff costs and taxes payable.

Sensitivity Analysis

The Group uses sensitivity analysis to measure the impact of changes in interest rates on its net profit or loss and equity. The table below sets forth the results of the Group's interest rate sensitivity analysis based on its assets and liabilities as of the dates indicated.

	As of December 31,						As of June 30,	
	2013		2014		2015		2016	
	Changes in net profit	Changes in equity	Changes in net profit	Changes in equity	Changes in net profit	Changes in equity	Changes in net profit	Changes in equity
	(in millions of RMB)							
Increase by 100 basis points	7.1	(373.6)	37.7	(207.2)	127.2	18.7	(163.6)	(672.3)
Decrease by 100 basis points	(7.1)	373.6	(37.7)	207.2	(127.2)	(18.7)	163.6	672.3

Based on the Group's assets and liabilities as of June 30, 2016, a 100 basis points increase or decrease in interest rates would result in an increase or a decrease in net profit of RMB163.6 million for the year subsequent to June 30, 2016.

The sensitivity analysis above is based on a static interest rate risk profile of the assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualized net profit or loss and equity would have been affected by the repricing of the assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

- Interest rate movements at the end of each fiscal year apply to non-derivative financial instruments,
- At the end of each of fiscal year, an interest rate movement of 100 basis points is based on the assumption of interest rates movement over the next 12 months,
- There is a parallel shift in the yield curve with the changes in interest rates,
- There are no other changes to the assets and liabilities portfolio,
- Other variables (including exchange rates) remain unchanged, and
- The analysis does not take into account the effect of risk management measures taken by the management.

Due to the adoption of the aforementioned assumptions, the actual changes in the net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

Foreign Currency Risk

Foreign currency risk mainly arises from exchange rate fluctuations. The Group does not face material foreign currency risk as all or substantially all of its assets, liabilities, income and expenses are denominated in Renminbi.

CAPITAL EXPENDITURES

The capital expenditures, which primarily consist of cash payment for the purchases of property and equipment and construction expenses, were RMB361.8 million, RMB551.6 million, RMB900.0 million and RMB500.5 million in 2013, 2014 and 2015 and the six months ended June 30, 2016.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Group has prepared its financial statements in accordance with IFRS, which requires it to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosure at the date of its financial statements. On an ongoing basis, the Group evaluates its estimates and judgments, which are based on historical experience and on various other factors that it believes to be reasonable under the circumstances. Actual results may differ from these estimates. The Group considers the following accounting policies to be critical policies due to the estimates and judgments involved in each. See also "Appendix I—Accountant's Report—Note 3—Significant Accounting Policies" and "Note 4—Critical Accounting Judgments and Key Sources of Estimation Uncertainty".

Determination of Consolidation Scope

The Group's consolidated financial statements incorporate the financial statements of the Bank and entities controlled by it, i.e. its subsidiaries. Control is achieved if the Bank has:

- power over the investee;
- exposure, or rights, to variable returns from the Bank's involvement with the investee; and
- the ability to use the Bank's power over the investee to affect the amount of its returns.

If the Bank holds less than a majority of the voting rights of an investee, power over the investee may be obtained through:

- contractual arrangements with other vote holders;
- rights arising from other contractual arrangements;
- the Bank's voting rights and potential voting rights; or
- a combination of the above, based on all relevant facts and circumstances.

The Group reassesses whether the Bank controls an investee if facts and circumstances indicate that there are changes to one or more of these elements of control stated above.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. When the Bank loses control of a subsidiary, it:

- derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;
- derecognizes the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them); and
- recognizes the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognized as a gain or loss in profit or loss attributable to the Bank.

When assets and liabilities of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Bank had directly disposed of the related assets and liabilities (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by the applicable accounting standards). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, under IAS 28 Investments in Associates and Joint Ventures, the cost on initial recognition of an investment in an associate or a joint venture.

As of June 30, 2016, the Bank consolidated 4 rural commercial banks and 12 village and township banks in which it held not more than 50% of their equity interests. The following table sets forth certain information about these investees:

Name of Investee	Percentage interest held	Percentage voting rights held	Date consolidated
Songyuan Ningjiang Huimin Village and Township Bank	40.80%	52.32%[1]	January 19, 2011
Changchun Gaoxin Huimin Village and Township Bank	50.00%	51.85%	September 24, 2013
Anping Huimin Village and Township Bank	36.00%	81.00%	December 24, 2013
Jilin Dehui Rural Commercial Bank	45.00%	65.00%	December 30, 2013
Tianjin Binhai Huimin Village and Township Bank	47.00%	52.00%	June 11, 2014
Huidong Huimin Village and Township Bank	35.00%	65.00%	November 21, 2014
Leizhou Huimin Village and Township Bank	45.00%	65.00%	March 25, 2015
Jilin Gongzhuling Rural Commercial Bank	30.00%	60.00%	October 12, 2015
Jilin Chuncheng Rural Commercial Bank	30.00%	70.00%	October 12, 2015
Baicheng Taobei Huimin Village and Township Bank	49.00%	67.00%	November 23, 2015
Taonan Huimin Village and Township Bank	49.00%	79.00%	December 11, 2015
Fuyu Huimin Village and Township Bank	49.00%	52.00%	December 14, 2015
Lingshui Dasheng Village and Township Bank	20.00%	58.00%	December 31, 2015
Jilin Chuanying Huimin Village and Township Bank	46.00%	51.00%	January 21, 2016
Changbai Mountain Rural Commercial Bank	38.80%	66.70%[2]	December 14, 2011
Sanya Phoenix Village and Township Bank	20.00%	53.00%	June 22, 2016

Notes:

(1) The Bank's equity interest was diluted from 51.0% to 40.8% in December 2013. However, acting-in-concert agreements were signed on the same month to re-assure the control over such entity.

(2) The Bank's equity interest was diluted from 97.00% to 38.80% in June 2016 because Changbai Mountain Rural Commercial Bank increased its registered capital to RMB250 million. However, acting-in-concert agreements were signed on June 21, 2016 to re-assure the control over such entity.

When the Bank has less than a majority of the voting rights of an investee, power over the investee may be obtained through: (i) a contractual arrangement with other vote holders; (ii) rights arising from other contractual arrangements; (iii) its voting rights and potential voting rights; or (iv) a combination of the above, based on all relevant facts and circumstances.

The Bank considered the following factors in determining that these investees met the consolidation criteria set forth in IFRS 10.

- At relevant times, the Bank held more than 50% of the voting rights through acting-in-concert agreements with certain minority shareholders; and
- The Bank was also the single largest shareholder while none of the remaining minority shareholders who were not acting in concert with it held more than 10% of the equity interest.

In the cases of Tianjin Binhai Huimin Village and Township Bank and Leizhou Huimin Village and Township Bank, although the formal acting-in-concert agreements were signed after the date of consolidation, the relevant parties already agreed to act in concert pursuant to undertakings given to the relevant regulatory authorities in connection with the incorporation of these investees.

The Bank further enhanced its control of the investees when it amended their articles of association between March and September 2016 to provide for its right to nominate the chairman and a majority of their directors.

The consolidated rural commercial banks and village and township banks in which the Bank owned not more than 50% equity interest contributed to 27.6% of the Group's total assets as of June 30, 2016, 25.1% of its operating income, and 22.0% of its net profit in the six months ended June 30, 2016 (without taking into account adjustments for intra-group transactions), respectively. If any of the factors discussed above changes, the Bank may not be able to continue to consolidate the financial results of these investees. See "Risk Factors—Risks Relating to the Group's Business—the Bank may lose control over some of the subsidiary banks, which could materially and adversely affect the Group's results of operations".

Jilin Shulan Rural Commercial Bank

From December 31, 2014 to December 10, 2015, the Bank controlled and consolidated Jilin Shulan Rural Commercial Bank. At the relevant times, the Bank was one of the largest shareholders and held 30% of the voting rights through acting-in-concert agreements with certain minority shareholders. None of the remaining minority shareholders who were not acting in concert with the Bank held more than 5% of the equity interest. The Bank sold its entire interest in Jilin Shulan Rural Commercial Bank in December 2015.

Haikou United Rural Commercial Bank

From March 30, 2014 to January 8, 2015, the Bank controlled and consolidated Haikou United Rural Commercial Bank. At the relevant times, the Bank was one of the largest shareholders and held 51.91% of the voting rights through acting-in-concert agreements with certain minority shareholders (including the other largest shareholder). The Bank deconsolidated Haikou United Rural Commercial Bank on January 8, 2015 because the acting-in-concert agreement with minority shareholders was terminated by mutual consent.

Impairment Losses of Loans and Advances and Debt Securities Classified as Receivables

The Group periodically determine whether there is any objective evidence that impairment losses have occurred on loans and advances and debt securities classified as receivables. If any such evidence exists, the Group assesses the amount of impairment losses. The amount of impairment losses is measured as the difference between the present value and the carrying amount of estimated future cash flows. Assessing the amount of impairment losses requires significant judgment on whether the objective evidence for impairment exists and also significant estimates when determining the present value of the expected future cash flows.

Impairment Losses of Available-for-sale Financial Assets and Held-to-maturity Investments

In determining whether there is any objective evidence that impairment losses have occurred on available-for-sale financial assets and held-to-maturity investments, the Group assesses periodically whether there has been a significant or prolonged decline in the fair value below its cost or carrying amount, or whether other objective evidence of impairment exists based on the investee's financial conditions and business prospects, including industry environment, change of technology as well as operating and financing cash flows. This requires a significant judgment of management, which would affect the amount of impairment losses.

Fair Value of Financial Instruments

There are no quoted prices from an active market for a number of financial instruments. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments and discounted cash flow analysis. Valuation models established by the Group makes maximum use of market input and rely as little as possible on its specific data. However, it should be noted that some input, such as credit and counterparty risk, and risk correlations require management's estimates. The Group reviews the above estimations and assumptions periodically and make adjustment if necessary.

The Classification of the Held-to-maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments if the Group has the intention and ability to hold them until maturity. In evaluating whether requirements to classify a financial asset as held-to-maturity are met, management makes significant judgments. Failure in correctly assessing the Group's intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

Income Taxes

Determining income tax provisions involves judgment on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognized for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognized to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilized, management's judgment is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognized if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

Impairment of Non-financial assets

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) may not be obtained reliably, the fair value of the asset may not be estimated reliably. In assessing the present value of future cash flows, significant judgments are exercised over the asset's selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

Depreciation and Amortization

Property and equipment and intangible assets are depreciated and amortized using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortization costs charged in each of the Track Record Period. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortization, the amount of depreciation or amortization will be revised.

Determination of Control over Investees

Management applies its judgment to determine whether the control indicators indicate that the Group controls a non-principal guaranteed wealth management product and an asset management plan. The Group acts as manager to a number of non-principal guaranteed wealth management products and asset management plans. Determining whether the Group controls such a structured entity usually focuses on the assessment of the aggregate economic interests of it in the entity (comprising any carried interests and expected management fees) and the decision-making authority of the entity. For all these structured entities managed by the Group, its aggregate economic interest is in each case not significant and the decision makers establish, market and manage them according to restricted parameters as set out in the investment agreements as required by laws and regulations. As a result, the Group has concluded that it acts as agent as opposed to principal for the investors in all cases, and therefore have not consolidated these structured entities.

INDEBTEDNESS

As of October 31, 2016, the Group had the following outstanding indebtedness:

- Interbank certificates in the aggregate face value of RMB11,630.0 million;
- Tier-two capital bonds issued in October 2016 with an aggregate principal amount of RMB900.0 million. The bonds have an interest rate of 4.20% per annum and maturity date of October 20, 2026. The Group has an option to redeem the bonds on October 20, 2021 at par.
- Tier-two capital bonds issued in April 2015 with an aggregate principal amount of RMB800.0 million. The bonds have an interest rate of 6.30% per annum and maturity date of April 13, 2025. The Group has an option to redeem the bonds on April 13, 2020 at par;
- Subordinated fixed rate bonds issued in December 2012 with an aggregate principal amount of RMB700.0 million. The bonds have an interest rate of 7.00% per annum and maturity date of December 30, 2022. The Group has an option to redeem the bonds on December 30, 2017 at par;
- Deposits from customers, deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements that arose from the normal course of the banking business; and
- Bank acceptances, letters of credit and guarantees, loan commitments and other commitments and contingencies that arose from the normal course of the banking business.

Except as disclosed above, the Group did not have, as of October 31, 2016, any outstanding mortgages, charges, debentures or other loan capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments or any guarantees or other material contingent liabilities.

The Bank's directors have confirmed that except as disclosed in the prospectus, there has not been any material change in the Group's indebtedness or contingent liabilities since October 31, 2016.

As of the Latest Practicable Date, there were no material covenants made by the Group in respect of any of its outstanding debts, and during the Track Record Period and up to the Latest Practicable Date, no covenant had been breached. The Group currently does not have any material external financing plans.

RULES 13.13 TO 13.19 OF THE LISTING RULES

The Bank confirms that there are no circumstances which will trigger disclosure requirements under Rule 13.13 to Rule 13.19 of the Listing Rules.

DIVIDEND POLICY

The board of directors is responsible for submitting proposals for dividend payments to the shareholders for approval. The determination of whether to pay a dividend and in which amount is based on the Group's results of operations, cash flow, financial condition, capital adequacy ratios, future business prospects, statutory and regulatory restrictions and other factors that the board of directors deems relevant. Under the PRC Company Law and the Bank's articles of association, all of the shareholders holding the same class of shares have equal rights to dividends and other distributions proportionate to their shareholding. Under PRC law, the Bank may only pay dividends out of its profit after tax. Profit after tax for a given year represents net profit as determined under PRC GAAP or IFRS or the accounting standards of the overseas jurisdiction where the shares are listed, whichever is lower, less:

- any of its accumulated losses in prior years;
- appropriations it is required to make to the statutory reserve, which is currently 10% of its net profit as determined under PRC GAAP, until such reserve reaches an amount equal to 50% of its registered capital;
- a general reserve it is required to set aside; and
- appropriations to a discretionary surplus reserve as approved by the shareholders at a general meeting.

According to the relevant MOF regulations, before a financial institution makes any profit distribution, its balance of statutory general reserve shall in principle not be lower than 1.5% of the balance of risk assets at the end of the period. As of June 30, 2016, the balance of the consolidated general reserves was RMB1,025.3 million.

Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. The Bank generally does not distribute dividends in a year in which the Bank does not have any distributable profit. The payment of any dividend by the Bank must also be approved at a shareholders' general meeting. The Bank is not allowed to distribute profits to the shareholders until it has made up its losses and made appropriations to its statutory surplus reserve and general reserves. The shareholders are required to return any profit distributed in violation of the relevant rules and regulations.

The CBRC has discretionary authority to prohibit any bank that fails to meet the relevant capital adequacy ratio requirements, or has violated any other PRC banking regulations, from paying dividends or making other forms of distributions. As of June 30, 2016, the Group had a capital adequacy ratio of 14.28%, a tier-one capital adequacy ratio of 12.08% and a core tier-one capital adequacy ratio of 12.08%, all of which comply with the relevant CBRC requirements.

The cash dividends distributed were RMB321.0 million, RMB414.6 million and RMB883.4 million for 2013, 2014 and 2015, respectively, representing RMB0.18, RMB0.18 and RMB0.30 per share. Dividends paid in prior periods may not be indicative of future dividend payments. In October 2016, the Bank's board of directors approved a dividend policy for fiscal years 2016 to 2018. Under the policy, the Bank's board will propose to its shareholders for approval to distribute dividends to ordinary shareholders of not less than 40% of distributable profits as of year end in each of the fiscal years 2016 to 2018, subject to compliance with the Bank's articles of association and relevant regulatory requirements. The Bank cannot guarantee whether, when or in what form dividends will be paid in the future.

LISTING EXPENSES

The estimated total listing expenses in relation to the Global Offering are approximately RMB165.9 million (equivalent to approximately HK$185.5 million, assuming no exercise of the Over-allotment Option and the mid-point of the Offer Price of HK$4.65), which consist of (1) approximately RMB38.9 million expected to be incurred in 2016 and RMB76.8 million expected to be incurred in 2017 directly attributable to the issue of new H Shares to the public and to be accounted for as a deduction from equity, and (2) approximately RMB3.6 million incurred on or before June 30, 2016, RMB26.0 million expected to be incurred from July 1, 2016 to December 31, 2016 and approximately RMB20.6 million expected to be incurred in 2017, to be reflected in the consolidated statements of profit or loss and other comprehensive income for the relevant periods. The listing expenses above are the latest practicable estimate for reference only and the actual amount may differ from this estimate. The Bank's directors do not expect such expenses to materially impact the results of operations for the year ending December 31, 2016.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets, prepared in accordance with Rule 4.29 of the Listing Rules, is for illustrative purposes only, and is set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets of the Group as of June 30, 2016, as if the Global Offering had taken place on June 30, 2016.

This unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as of June 30, 2016 or at any future date:

	Consolidated net tangible assets as of June 30, 2016[1]	Estimated net proceeds from the Global Offering[2][5]	Unaudited pro forma adjusted consolidated net tangible assets[3]	Unaudited pro forma adjusted consolidated net tangible assets per share[4][5]	
	(in thousands of RMB)			(RMB)	(HK$)
Based on the Offer Price of HK$4.54 per Offer Share	7,997,098	2,275,934	10,273,032	2.64	2.95
Based on the Offer Price of HK$4.76 per Offer Share	7,997,098	2,390,351	10,387,449	2.67	2.98

Notes:

(1) The consolidated net tangible assets attributable to shareholders as of June 30, 2016 are based on the consolidated net assets attributable to shareholders of RMB9,170.9 million less goodwill of RMB1,173.8 million as of June 30, 2016.

(2) The estimated net proceeds from the Global Offering for the purpose of unaudited pro forma adjusted consolidated net tangible assets are based on the Offer Price of HK$4.54 (being the low-end of the proposed Offer Price range) and HK$4.76 per H Share (being the high-end of the proposed Offer Price range) and the assumption that there are 600,000,000 newly issued H Shares in the Global Offering, after deduction of the underwriting fees and other related expenses paid or payable and taking no account of any H Shares which may be issued upon the exercise of the Over-allotment Option.

(3) The unaudited pro forma adjusted consolidated net tangible assets do not take into account the financial results or other transactions subsequent to June 30, 2016.

(4) The unaudited pro forma adjusted consolidated net tangible assets per share are arrived on the basis of 3,894,797,692 Shares in issue assuming that the Global Offering has been completed on June 30, 2016 and that the Over-allotment Option is not exercised.

(5) The estimated net proceeds from the Global Offering and the unaudited pro forma adjusted net tangible assets per share are translated into Renminbi at the rate of RMB0.89441 to HK$1.00, the exchange rate set by the PBOC prevailing on December 20, 2016. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi at that rate or at any other rate.

NO MATERIAL ADVERSE CHANGE

The Bank's directors confirm that there has been no material adverse change in the Group's financial or trading position since June 30, 2016.

WORKING CAPITAL

Rule 8.21A(1) and Paragraph 36 of part A of Appendix 1A of the Listing Rules require this prospectus to include a statement by the Bank's directors that, in their opinion, available working capital is sufficient for at least 12 months from the publication of this prospectus or, if not, how it is proposed to provide the additional working capital the Bank's directors consider to be necessary. The Bank is of the view that the traditional concept of "working capital" does not apply to banking businesses such as the Group. The Bank and the subsidiary banks are regulated in the PRC by, among others, PBOC and CBRC. These regulatory authorities impose minimum capital adequacy ratio and liquidity requirements on commercial banks operating in the PRC. Rule 8.21A(2) of the Listing Rules provides that such a working capital statement will not be required to be made by an issuer whose business is entirely or substantially that of the provision of financial services, provided that the Hong Kong Stock Exchange is satisfied that the inclusion of such a statement would not provide significant information for investors and the issuer's solvency and capital adequacy ratio are subject to prudential supervision by another regulatory body. In view of the above, pursuant to Rule 8.21A(2) of the Listing Rules, the Group is not required to include a working capital statement by the Bank's directors in this prospectus.