BQD 青岛银行

Bank of Qingdao Co., Ltd.
青島銀行股份有限公司

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

Stock Code: 3866

GLOBAL OFFERING

Joint Sponsors

Goldman Sachs

CITIC CLSA Securities

Joint Global Coordinators

Goldman Sachs

AMTD Asset Management 尚乘資產管理

CITIC CLSA Securities

Joint Bookrunners and Joint Lead Managers

Goldman Sachs

AMTD Asset Management 尚乘資產管理

CITIC CLSA Securities

海通國際 HAITONG

農銀國際 ABC INTERNATIONAL

CMS 招商证券

國信證券(香港) GUOSEN SECURITIES (HK)

建银国际 CCB International

國泰君安國際 GUOTAI JUNAN INTERNATIONAL

BNP PARIBAS

BANCA IMI

Financial Advisor

ROTHSCHILD

IMPORTANT: If you are in any doubt about any of the contents of this prospectus, you should seek independent professional advice.

BQD 青岛银行

Bank of Qingdao Co., Ltd.*
青島銀行股份有限公司*

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

GLOBAL OFFERING

Number of Offer Shares in the Global Offering	:	**990,000,000 H Shares (comprising 900,000,000 H Shares to be offered by our Bank and 90,000,000 Sale Shares to be offered by the Selling Shareholders, subject to adjustment and the Over-allotment Option)**
Number of Offer Shares in the International Offering	:	**891,000,000 H Shares (subject to adjustment and the Over-allotment Option)**
Number of Hong Kong Offer Shares	:	**99,000,000 H Shares (subject to adjustment)**
Maximum Offer Price	:	**HK$5.21 per H Share, plus brokerage of 1%, SFC transaction levy of 0.0027%, and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong Dollars and subject to refund)**
Nominal value	:	**RMB1.00 per H Share**
Stock code	:	**3866**

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ROTHSCHILD

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

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

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and us (on behalf of ourselves and the Selling Shareholders) on the Price Determination Date, which is expected to be on or around Wednesday, November 25, 2015 (Hong Kong time) and, in any event, not later than Wednesday, December 2, 2015 (Hong Kong time). The Offer Price will be not more than HK$5.21 per H Share and is currently expected to be not less than HK$4.75 per H Share. Investors applying for the Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK$5.21 per Hong Kong Offer Share, unless otherwise announced, together with a brokerage fee of 1%, a Hong Kong Stock Exchange trading fee of 0.005% and a SFC transaction levy of 0.0027%, subject to refund if the Offer Price is lower than HK$5.21.

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

If, for any reason, the Offer Price is not agreed on or before Wednesday, December 2, 2015 between the Joint Global Coordinators (on behalf of the Underwriters) and us (on behalf of ourselves and the Selling Shareholders), the Global Offering will not proceed and will lapse.

We are incorporated, and substantially all of our businesses are located, in the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong, and that there are different risk factors relating to investment in the PRC-incorporated companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong, and should take into consideration the different market nature of our Shares. Such differences and risk factors are set forth in "Risk Factors", "Supervision and Regulation," Appendix IV—"Summary of Principal Legal and Regulatory Provisions" and Appendix V—"Summary of Articles of Association".

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

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

* *Bank of Qingdao Co., Ltd. is not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorized to carry on banking and/or deposit-taking business in Hong Kong.*

November 20, 2015

Latest time to complete electronic applications under **White Form eIPO** service through the designated Website **www.eipo.com.hk**(2)	11:30 a.m. on Wednesday, November 25, 2015
Application lists open(3)	11:45 a.m. on Wednesday, November 25, 2015
Latest time to lodge **WHITE** and **YELLOW** Application Forms	12:00 noon, on Wednesday, November 25, 2015
Latest time to give **electronic application instructions** to HKSCC(4)	12:00 noon, on Wednesday, November 25, 2015
Latest time to complete payment of **White Form eIPO** applications by effecting Internet banking transfer(s) or PPS payment transfer(s)	12:00 noon, on Wednesday, November 25, 2015
Application lists close	12:00 noon, on Wednesday, November 25, 2015
Expected Price Determination Date(5)	Wednesday, November 25, 2015

(1) Announcement of:

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

to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), and on the website of the Hong Kong Stock Exchange at **www.hkexnews.hk** and the Bank's website at **www.qdccb.com**(6) on	Wednesday, December 2, 2015
(2) Announcement of results of allocations in the Hong Kong Public Offering (including successful applicants' identification document numbers, where appropriate) will be available through a variety of channels (see "How to Apply for Hong Kong Offer Shares—11. Publication of Results") from	Wednesday, December 2, 2015
Results of allocations in the Hong Kong Public Offering will be available at **www.iporesults.com.hk** with a "search by ID" function	Wednesday, December 2, 2015
H Share certificates in respect of wholly or partially successful applications to be dispatched on(7)(8)	Wednesday, December 2, 2015
White Form e-Refund payment instructions/refund cheques in respect of wholly or partially unsuccessful applications to be dispatched on or before(8)(9)(10)	Wednesday, December 2, 2015
Dealings in H Shares on the Hong Kong Stock Exchange expected to commence on	Thursday, December 3, 2015

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

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

(3) If there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, November 25, 2015, the application lists will not open on that day. See "How to Apply for Hong Kong Offer Shares—10. Effect of Bad Weather on the Opening of the Application Lists".

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

(5) The Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or about Wednesday, November 25, 2015, and in any event no later than Wednesday, December 2, 2015. If, for any reason, the Offer Price is not agreed on or before Wednesday, December 2, 2015, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

(6) None of the websites or any of the information contained on the websites forms part of this prospectus.

(7) No temporary documents of title will be issued in respect of the Offer Shares. H Share certificates will only become valid certificates of title at 8:00 a.m. on Thursday, December 3, 2015, provided that (i) the Global Offering has become unconditional in all respects and (ii) the Underwriting Agreements have not been terminated in accordance with their respective terms. Investors who trade H Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.

(8) Applicants who apply for 1,000,000 or more Hong Kong Offer Shares and have provided all required information may collect refund cheques (where applicable) and H Share certificates (where applicable) in person from our H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, December 2, 2015. Applicants being individuals who opt for personal collection must not authorize any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorized representatives each bearing a letter of authorization from his corporation stamped with the corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. Uncollected refund cheques and H Share certificates will be dispatched promptly by ordinary post to the addresses as specified in the applicants' Application Forms at the applicants' own risk. For details of the arrangements, see "How to Apply for Hong Kong Offer Shares".

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

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

CONTENTS

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

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Selling Shareholders, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors or supervisors, or any other person or party involved in the Global Offering.

CONTENTS

> ***This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the H Shares. There are risks associated with any investment. Some of the particular risks in investing in the H Shares are set out in "Risk Factors". You should read that section carefully before you decide to invest in the H Shares.***

OVERVIEW

As of December 31, 2014, we were the largest City Commercial Bank in Shandong Province, China, in terms of total assets, total loans, customer deposits and total equity. As of December 31, 2014, our total loans originated in Qingdao ranked 7th among all the banks in Qingdao with a market share of 4.5% and our total deposits booked in Qingdao ranked 7th among all the banks in Qingdao with a market share of 7.2%. We have developed a business model that is well aligned with the regional economy. Leveraging our inherent advantages, we operate in a professional and specialized manner to meet our target customers' needs by providing quality and convenient financial products and services. We seek to achieve sustainable growth and create value for our Shareholders.

In recent years, our business has seen rapid growth. As of June 30, 2015, we had total assets of RMB169.4 billion with a CAGR of 23.9% from 2012 to 2014. In 2015, we ranked 434th among the Top 1,000 World Banks in terms of total assets at the end of 2014, according to The Banker, a UK magazine, up 40 positions as compared to the preceding year. From 2012 to 2014, our operating income increased from RMB2,887 million to RMB4,365 million at a CAGR of 23.0%. During the same period, our net profit increased from RMB920 million to RMB1,495 million at a CAGR of 27.5%, which was higher than the net profit CAGRs of all listed City Commercial Banks in China for the same period. In addition, we have adhered to rigorous risk management to maintain stable operations and sound asset quality. As of December 31, 2014, our non-performing loan ratio was 1.14%, which was significantly lower than the average of 1.86% for financial institutions in the banking industry of Shandong Province and the average of 1.25% for commercial banks in China. As of the same date, our allowance coverage ratio and allowance to gross loan ratio were 242.34% and 2.76%, respectively, significantly higher than the regulatory requirements.

Our distribution network expands across Shandong Province with Qingdao as our base. As of June 30, 2015, we had 86 outlets in nine cities in Shandong Province, namely Qingdao, Ji'nan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai and Binzhou, including one head office and 61 sub-branches in Qingdao. We plan to steadily expand our distribution network to all major cities in Shandong Province. In addition, we provide convenient 24-hour online services to our customers through electronic banking channels such as online banking, telephone banking, mobile banking, WeChat banking and direct banking.

We have received a number of honors and awards from various authoritative institutions in recognition of our excellent business performance and sound management. For example:

- From 2011 to 2014, we were awarded the Golden-dragon Award by the Financial News (金融時報) for four consecutive years, including the "Most Innovative Small and Medium Bank of the Year" (年度最具創新力中小銀行) in 2011 and 2013, the "Best Small and Medium Bank of the Year for Small and Micro Enterprises" (年度最佳小微企業服務中小銀行) in 2012 and the "Best Small and Medium Bank of the Year for Retail Banking" (年度最佳零售業務中小銀行) in 2014;

- From 2012 to 2014, we were awarded the "Research Achievement in Information Technology on Risk Management in the Banking Industry" (銀行業信息科技風險管理研究成果獎) by CBRC for three consecutive years, including the Class II Achievement Prize in 2013, which was the highest prize awarded to City Commercial Banks that year;
- In 2012, 2013 and 2014, we were awarded the "Best City Commercial Bank in Trade Finance" (最佳貿易金融城商行), the "Best Bank for Growth in Trade Finance" (最佳貿易金融成長銀行) and the "Best City Commercial Bank in Trade Finance" (最佳貿易金融城商行), respectively, jointly by the Trade Finance (《貿易金融》) magazine and SINOTF.COM (中國貿易金融網);
- In 2012 and 2014, we were awarded the "Outstanding Trading Member" (優秀交易成員) and the "Most Influential Bank" (最具市場影響力獎) in the interbank RMB market, respectively, by the National Interbank Funding Center (全國銀行間同業拆借中心);
- In 2012 and 2014, we were awarded the "Outstanding Settlement Member" (優秀結算成員) in the national interbank bond market and the "Outstanding Market Dealer" (優秀自營商) in China's bond market, respectively, by the China Central Depository and Clearing Corporation Limited (中央國債登記結算有限責任公司); and
- In 2013 and 2014, we were awarded the "Best Regional Commercial Bank for Online Banking Customer Experience" (區域性商業銀行最佳網上銀行用戶體驗獎) and the "Best Regional Commercial Bank for Mobile-banking Security" (區域性商業銀行最佳手機銀行安全獎), respectively, by the China Financial Certification Authority (中國金融認證中心).

Our principal business lines include corporate banking, retail banking and financial market businesses. As of June 30, 2015, our gross loans to customers (before taking into account related allowance for impairment losses) amounted to RMB69,959 million, of which our corporate loans amounted to RMB51,444 million. Our loans to small and micro enterprises increased from RMB14,899 million as of December 31, 2012 to RMB24,730 million as of June 30, 2015. As of June 30, 2015, our personal loans amounted to RMB18,515 million, representing 26.5% of our total loans to customers, which increased from 24.6% as of December 31, 2012. As of June 30, 2015, our total deposits from customers amounted to RMB101,971 million, of which our corporate deposits amounted to RMB60,851 million and our personal deposits amounted to RMB40,933 million, representing 40.2% of our total deposits from customers, which increased from 29.0% as of December 31, 2012. For the six months ended June 30, 2015, our net fee and commission income amounted to RMB393 million, representing 16.4% of our operating income for the same period. The table below sets forth the contribution of each business line to our operating income for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2012		2013		2014		2014 (unaudited)		2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)									
Corporate banking business	2,008	69.6%	2,270	63.8%	2,460	56.4%	1,304	58.8%	1,307	54.5%
Retail banking business	453	15.7	660	18.6	882	20.2	435	19.6	501	20.9
Financial market business	408	14.1	593	16.7	986	22.6	479	21.6	583	24.3
Others[(1)]	18	0.6	33	0.9	37	0.8	(1)	—	8	0.3
Total	**2,887**	**100.0%**	**3,556**	**100.0%**	**4,365**	**100.0%**	**2,217**	**100.0%**	**2,399**	**100.0%**

(1) Consists primarily of income and expenses that are not directly attributable to any specific segment.

For details of our businesses, see "Business—Our Principal Business Lines" on pages 140 to 158 of this prospectus.

OUR COMPETITIVE STRENGTHS

Our principal competitive strengths include:

- Modernized corporate governance underpinned by our high quality and diversified shareholding structure;
- A distinct "Interface Bank" supported by continuous investments in technology ("Interface Bank" refers to the business model where our business platform is connected to the service platforms of our partners, through which our partners fulfill their needs for financial services and we secure the partnerships and obtain access to their customer base);
- A competitive retail bank founded on innovative customer acquisition model and outstanding service capabilities;
- A rapidly growing financial market business in the new era of asset management driven by our professional trading and asset allocation capabilities;

- Centralized risk management system, effective information collection measures and proven execution capabilities; and
- Beneficiary of the transformation and upgrade of Shandong Province's economy, as well as favorable policies such as "One Belt and One Road".

For details of our strengths, see "Business—Our Competitive Strengths" on pages 129 to 137 of this prospectus.

OUR BUSINESS STRATEGIES

Our strategic goal is to become a City Commercial Bank with distinct business features. To achieve this goal, we will implement the following business strategies:

- Continuously enhancing our distinct "Interface Bank" model;
- Striving to become the most convenient retail bank;
- Developing corporate banking core competitiveness in trade finance, public sector finance and other selected sectors;
- Expanding our financial market business through resources integration and financial innovation; and
- Continuously improving risk management to satisfy our business development and innovation needs.

For details of our strategies, see "Business—Our Business Strategies" on pages 137 to 140 of this prospectus.

RISK FACTORS

There are risks associated with any investment. Investment in our Shares involves certain risks and uncertainties, including the following:

- If we are unable to effectively maintain the quality of our loan portfolio, our business, financial condition and results of operation may be materially and adversely affected;
- We are subject to risks relating to our investments in non-standard credit assets;
- Our current risk management systems may not adequately protect us against credit, market, liquidity, operational and other risks;
- We may have difficulties in meeting capital adequacy and other regulatory requirements in the future;
- We face uncertainties associated with national and local government policies and initiatives which are adopted to promote local economic development, and we are also exposed to risks due to our business and operational concentration in Qingdao;
- We face increasingly intensive competition in China's banking industry; and
- Further development of interest rate liberalization may materially and adversely affect our results of operation.

For details of risk factors relating to the investment in our Shares, see "Risk Factors" on pages 25 to 49 of this prospectus. You should carefully consider all of the information set forth therein before making any investment in our Shares.

SUMMARY HISTORICAL FINANCIAL INFORMATION

You should read the summary historical financial information set forth below in conjunction with our financial information included in the Accountants' Report set forth in Appendix I to this prospectus, which are prepared in accordance with IFRS, and the sections entitled "Assets and Liabilities" and "Financial Information" of this prospectus. The summary historical income statement data for the years ended December 31, 2012, 2013 and 2014 and the six months ended June 30, 2014 (unaudited) and the six months ended June 30, 2015 and the summary historical statement of financial position data as of December 31, 2012, 2013 and 2014 and June 30, 2015 set forth below are derived from the Accountants' Report set forth in Appendix I to this prospectus.

Summary Historical Income Statement Data

	For the year ended December 31,			For the six months ended June 30,	
	2012	2013	2014	2014 (unaudited)	2015
	(in millions of RMB, except earnings per Share)				
Interest income[(1)]	4,501	6,119	7,595	3,724	4,247
Interest expense	(1,894)	(3,031)	(3,999)	(1,951)	(2,297)
Net interest income	2,607	3,088	3,596	1,773	1,950
Fee and commission income	253	456	721	434	407
Fee and commission expense	(17)	(31)	(32)	(17)	(14)
Net fee and commission income	236	425	689	417	393
Net trading gains	21	7	34	21	12
Net gains arising from investments	5	1	11	7	36
Other operating income	18	35	35	(1)	8
Operating income	2,887	3,556	4,365	2,217	2,399
Operating expenses	(1,380)	(1,689)	(1,995)	(839)	(750)[(2)]
Pre-provision operating profit	1,507	1,867	2,370	1,378	1,649
Impairment losses	(284)	(348)	(412)	(181)	(241)
Profit before tax	1,223	1,519	1,958	1,197	1,408
Income tax expense	(303)	(377)	(463)	(287)	(334)
Net profit	**920**	**1,142**	**1,495**	**910**	**1,074**
Basic and diluted earnings per Share (in RMB)	0.36	0.45	0.59	0.36	0.36

(1) Consists of interest income from loans to customers, fixed income investments, deposits with central bank, deposits with banks and other financial institutions, financial assets held under resale agreements and placements with banks and other financial institutions. See "Financial Information—Results of Operation for the Six Months ended June 30, 2014 and 2015—Net Interest Income—Interest Income" on pages 301 to 304 and "Financial Information—Results of Operation for the Years ended December 31, 2012, 2013 and 2014—Net Interest Income—Interest Income" on pages 317 to 320 of this prospectus.

(2) Our operating expenses for the six months ended June 30, 2015 reflected the impact of a non-recurring write-back from our supplemental retirement benefits of RMB178 million. For details on the impact of such write-back on our operating expenses and our net profit, see "Financial Information–Results of Operation for the Six Months Ended June 30, 2014 and 2015" on page 298 and "Financial Information–Results of Operation for the Six Months Ended June 30, 2014 and 2015–Operating Expenses" on pages 310 to 311 of this prospectus.

For details, see "Financial Information" on pages 293 to 351 of this prospectus.

Summary Historical Statement of Financial Position Data

	As of December 31,			As of June 30,
	2012	2013	2014	2015
	(in millions of RMB)			
Assets				
Cash and deposits with central bank	20,072	20,871	23,610	21,552
Deposits with banks and other financial institutions	3,586	2,481	2,019	3,012
Placements with banks and other financial institutions	1,063	700	1,156	1,357
Financial assets at fair value through profit or loss	284	184	190	293
Financial assets held under resale agreements	5,857	8,208	2,698	1,016
Loans to customers	44,496	54,106	61,248	68,136
Financial investments(1)				
Available-for-sale financial assets	9,486	6,077	14,123	10,601
Held-to-maturity investments	13,363	18,906	19,721	21,729
Investments classified as receivables	562	20,470	27,209	37,342
Subtotal	23,411	45,453	61,053	69,672
Property and equipment	607	759	866	861
Deferred tax assets	226	362	337	320
Other assets	2,056	2,565	2,989	3,190
Total assets	**101,658**	**135,689**	**156,166**	**169,409**
Liabilities				
Borrowings from central bank	—	1,024	1,004	1,042
Deposits from banks and other financial institutions	2,817	12,553	20,362	20,044
Placements from banks and other financial institutions	4,261	260	1,380	2,732
Financial assets sold under repurchase agreements	10,248	10,130	10,069	8,949
Deposits from customers	75,648	96,284	101,734	101,971
Income tax payable	44	124	89	164
Debt securities issued	—	4,987	8,335	17,508
Other liabilities	1,203	2,122	3,408	4,884
Total Liabilities	**94,221**	**127,484**	**146,381**	**157,294**
Equity				
Share capital	2,556	2,556	2,556	3,112
Reserves	4,881	5,649	7,229	9,003
Total equity	**7,437**	**8,205**	**9,785**	**12,115**
Total liabilities and equity	**101,658**	**135,689**	**156,166**	**169,409**

(1) Consists of our holding of debt securities, asset management plans, trust fund plans, wealth management products issued by financial institutions, beneficiary rights in margin financing, beneficiary certificates, investment funds, and equity investments.

For details, see "Assets and Liabilities" on pages 250 to 292 and "Financial Information" on pages 293 to 351 of this prospectus, respectively. For details on our off-balance sheet commitments, see "Financial Information—Off-balance Sheet Commitments" on page 340 of this prospectus.

Selected Financial Ratios

	For the year ended December 31,			For the six months ended June 30,	
	2012	2013	2014	2014[1]	2015[1]
Profitability indicators					
Return on average total assets[2]	1.03%	0.96%	1.02%	1.27%	1.32%
Return on average equity[3]	12.78%	14.60%	16.62%	21.04%	19.62%
Net interest spread[4]	2.86%	2.38%	2.25%	2.33%	2.13%
Net interest margin[5]	3.04%	2.54%	2.43%	2.50%	2.34%
Net fee and commission income to operating income	8.17%	11.95%	15.78%	18.81%	16.38%
Cost-to-income ratio[6]	41.57%	41.06%	39.61%	31.57%	25.14%

(1) On an annualized basis.
(2) Calculated by dividing net profit for the period by average balance of total assets at the beginning and the end of the period.
(3) Calculated by dividing net profit for the period by average balance of total equity at the beginning and the end of the period.
(4) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.
(5) Calculated by dividing net interest income by the daily average balance of total interest-earning assets.
(6) Calculated by dividing total operating expenses (excluding business tax and surcharges) by total operating income. Our operating expenses for the six months ended June 30, 2015 reflected the impact of a non-recurring write-back from our supplemental retirement benefits. For details on the impact of such write-back on our operating expenses, see "Financial Information–Results of Operation for the Six Months Ended June 30, 2014 and 2015–Operating Expenses".

The following table sets forth, as of the dates indicated, information relating to certain regulatory indicators, calculated in accordance with the requirements of the PRC banking regulatory authorities and applicable accounting standards.

	Regulatory requirement	As of December 31,			As of June 30,	
		2012	2013	2014	2014	2015
Capital adequacy indicators						
Calculated based on the Capital Administrative Measures						
Core tier-one capital adequacy ratio[2]	≥7.5%	N/A[1]	9.75%	9.72%	9.75%	10.10%
Tier-one capital adequacy ratio[3]	≥8.5%	N/A[1]	9.75%	9.72%	9.75%	10.10%
Capital adequacy ratio[4]	≥10.5%	N/A[1]	10.88%	10.75%	10.87%	12.78%
Asset quality indicators						
Non-performing loan ratio[5]	≤5%	0.76%	0.75%	1.14%	0.90%	1.19%
Allowance coverage ratio[6]	≥150%	352.59%	365.47%	242.34%	310.69%	218.59%
Allowance to gross loan ratio[7]	≥2.5%	2.68%	2.74%	2.76%	2.80%	2.61%

(1) As of December 31, 2012, our core capital adequacy ratio and capital adequacy ratio as calculated pursuant to the then effective Capital Adequacy Measures was 12.89% and 13.70%, respectively, in compliance with the requirements under the then effective Capital Adequacy Measures. The Capital Adequacy Measures has been replaced by the Capital Administrative Measures on January 1, 2013 and is no longer applicable.
(2) Calculated by dividing core tier-one capital, net of core tier-one capital deductions, by risk-weighted assets. For the components of core tier-one capital, core tier-one capital deductions and risk-weighted assets under the Capital Administrative Measures, see "Supervision and Regulation—Supervision over Capital Adequacy—Latest CBRC Supervisory Standards Over Capital Adequacy" and "Financial Information—Capital Resources—Capital Adequacy".
(3) Calculated by dividing tier-one capital, net of tier-one capital deductions, by risk-weighted assets. For the components of tier-one capital, tier-one capital deductions and risk-weighted assets under the Capital Administrative Measures, see "Supervision and Regulation—Supervision over Capital Adequacy—Latest CBRC Supervisory Standards Over Capital Adequacy" and "Financial Information—Capital Resources—Capital Adequacy".
(4) Calculated by dividing total capital, net of capital deductions, by risk-weighted assets. For the components of our total capital, capital deductions and risk weighted assets under the Capital Administrative Measures, see "Supervision and Regulation—Supervision over Capital Adequacy—Latest CBRC Supervisory Standards Over Capital Adequacy" and "Financial Information—Capital Resources—Capital Adequacy".
(5) Calculated by dividing total non-performing loans by gross loans. For details on the year-on-year changes in our non-performing loan ratio, see "Assets and Liabilities—Assets—Asset Quality of Our Loan Portfolio—Changes in Asset Quality of Our Loans".
(6) Calculated by dividing total allowance for impairment losses on loans to customers by total non-performing loans.
(7) Calculated by dividing total allowance for impairment losses on loans to customers by gross loans to customers.

OFFERING STATISTICS

The statistics in the following table are based on the assumptions that (i) the Global Offering is completed and 990,000,000 H Shares are offered in the Global Offering, (ii) the Over-allotment Option for the Global Offering is not exercised, and (iii) 4,011,532,749 Shares are issued and outstanding following the completion of the Global Offering:

	Based on an Offer Price of HK$4.75	Based on an Offer Price of HK$5.21
Market capitalization of our Shares	HK$19,055 million	HK$20,900 million
Unaudited pro forma adjusted net tangible assets per Share	RMB3.83(1) (HK$4.66(2))	RMB3.91(1) (HK$4.76(2))

(1) The unaudited pro forma adjusted net tangible assets per share is arrived on the basis of 4,011,532,749 shares in issue assuming that the Global Offering has been completed on June 30, 2015 and that the Over-allotment Option is not exercised.

(2) The unaudited pro forma adjusted net tangible assets per share is translated into Hong Kong dollars at exchange rate of RMB0.82134 to HK$1.00. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars at that rate or at any other rate.

THE GLOBAL OFFERING

The Global Offering comprises:

(i) the Hong Kong Public Offering of 99,000,000 H Shares (subject to adjustment) in Hong Kong as described in "Structure of the Global Offering—Hong Kong Public Offering"; and

(ii) the International Offering of 891,000,000 H Shares (subject to adjustment and the Over-allotment Option) to qualified institutional buyers (as defined in Rule 144A) in the United States according to the exemption from the registration requirements of the U.S. Securities Act and to be offered outside the United States (including professional and institutional investors in Hong Kong) in offshore transactions in reliance on Regulation S.

Investors may apply for H Shares under the Hong Kong Public Offering or apply for or indicate an interest for H Shares under the International Offering, but may not do both.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

RESTRICTIONS ON SHARE PLEDGE

In November 2013, CBRC issued the CBRC Notice on Enhanced Management of Pledge of Equity Interest in Commercial Banks (《中國銀監會關於加強商業銀行股權質押管理的通知》), pursuant to which commercial banks are required to clearly stipulate the following matters in their articles of association:

(i) where a shareholder, who has a seat on the board of directors or the board of supervisors, or directly, indirectly or jointly holds or controls more than 2% of share capital or voting rights in the bank, pledges his equity interests in the bank, he shall make a filing to the board of directors of the bank prior to the pledge and, upon the registration of pledge of equity interests, the shareholders involved shall provide the bank with the relevant information in relation to the pledge of equity interests in a timely manner; and

(ii) where a shareholder pledges 50% or more of his equity interests in the bank, the voting rights of such shareholder at the shareholders' general meetings, as well as the voting rights of the director(s) designated by such shareholder at board meetings, shall be subject to restrictions.

For details of restrictions on the ability of a commercial bank's shareholders to pledge their shares, see "Supervision and Regulation—Ownership and Shareholder Restrictions—Restrictions on Shareholders".

DIVIDEND POLICY

We declared and distributed cash dividends of RMB179 million, RMB204 million and RMB778 million with respect to the financial years 2012, 2013 and 2014, respectively. Dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee when, if and in what form or size dividends will be paid in the future.

Pursuant to the approval of our Shareholders' general meetings, our existing and new Shareholders shall be entitled to the accumulated retained earnings prior to the Global Offering. Pursuant to the PRC Company Law and our Articles of Association, all Shareholders have equal rights to dividend distribution.

Our Board of Directors is responsible for submitting proposals (adopted by two-thirds majority) in respect of dividend payments, if any, to the Shareholders' general meeting for approval. The determination of whether to pay dividends and the amount of such dividends is based on our results of operation, cash flows, financial condition, capital adequacy ratios, future business prospects, statutory and regulatory restrictions on the payment of dividends by us and other factors that our Board of Directors considers relevant. Subject to our Articles of Association and the requirements related to dividend distribution, our Board of Directors shall propose profit distribution plans to our Shareholder's general meetings and the profit distributed in cash shall not be less than 10% of the distributable profit of the year.

Pursuant to our Articles of Association, we shall distribute dividends from our distributable profits in accordance with the PRC GAAP or IFRS (or the accounting standards of the place where our Shares are listed) (whichever is the lower).

INFORMATION ON SUBSTANTIAL SHAREHOLDERS

As of the Latest Practicable Date, Haier, ISP and Qingdao Conson, directly or indirectly, held approximately 26.10%, 20.00% and 17.13% of our Shares, respectively. Immediately after the Global Offering and assuming that the Over-allotment Option is not exercised, Haier, ISP and Qingdao Conson would directly or indirectly hold approximately 20.25%, 15.51% and 12.64% of our Shares, respectively (or approximately 19.59%, 15.01% and 11.98%, respectively, assuming that the Over-allotment Option is fully exercised). For details of our substantial Shareholders, see "Substantial Shareholders" on pages 242 to 245 of this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

We intend to use the net proceeds from the Global Offering (after deduction of underwriting commissions and estimated expenses payable by us in relation to the Global Offering) to strengthen our capital base to meet the needs of the continuous growth of our business. For details of the planned use of proceeds from the Global Offering, see "Future Plans and Use of Proceeds" on page 352 of this prospectus.

RECENT DEVELOPMENTS

Since June 30, 2015, we have obtained regulatory approval to open eight new sub-branches in Qingdao, Jinan and Zibo, respectively.

On August 11, 2015, PBoC announced to improve the central parity quotations of RMB against the U.S. dollar by authorizing market-makers to provide central parity quotations to the China Foreign Exchange Trading Center with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign exchange as well as changes in major international currency exchange rates. On the same day, the central parity of RMB against the U.S. dollar depreciated by nearly 2% as compared to August 10, 2015 and further depreciated by nearly 1.6% on August 12, 2015 as compared to August 11, 2015. Substantially all of our assets and liabilities are denominated in RMB. We believe such changes in the foreign exchange regime and depreciation of RMB against the U.S. dollar will not have a material impact on our results of operation and financial condition. See "Risk Factors—Risks Relating to the PRC—We are subject to PRC government controls on currency conversion, and the fluctuation of the RMB exchange rate may materially and adversely affect our business and our ability to pay dividends to holders of H Shares."

On August 26, 2015, PBoC announced to lower the statutory deposits reserve ratio for all deposit-taking financial institutions by 50 basis points (effective September 6, 2015), and to lower the benchmark interest rates on RMB-denominated loans and deposits by 0.25 percentage points while allowing financial institutions to set interest rates based on commercial considerations for RMB-denominated time deposits with tenors of longer than one year, effective immediately. Effective October 24, 2015, PBoC further lowered the statutory deposits reserve ratio for all deposit-taking financial institutions by 50 basis points and further lowered the benchmark interest rates on RMB-denominated loans and deposits by 0.25 percentage points, as well as removed the cap on interest rates on deposits and allowed commercial banks in China to set interest rates on deposits based on commercial considerations. Such changes in the benchmark interest rates may affect the yields on our interest-earning assets and the costs of our interest-bearing liabilities, which in turn may affect our net interest income. The continued interest rate liberalization may intensify competition in the PRC banking industry, and thereby may affect our results of operation. We will continue to monitor and manage the interest rate risks arising from changes in interest rates through matching the maturities of our assets and liabilities portfolios and conducting interest rate gap analysis and duration analysis. We believe such changes in the benchmark interest rates will not have a material adverse impact on our operations and financial results.

Our operating income for the nine months ended September 30, 2015 was RMB3,625 million, representing a 8.6% increase as compared to RMB3,337 million for the same period in 2014, primarily due to an increase in our net interest income. Our net interest income increased by 8.3% to RMB2,949 million for the nine months ended September 30, 2015 as compared to RMB2,722 million for the same period in 2014, primarily attributable to an increase in interest income from our investment securities and other financial assets as well as loans to customers, which was partially offset by an increase in interest expenses on debt securities issued and deposits from banks and other financial institutions. Our net fee and commission income increased by 3.5% to RMB593 million for the nine months ended September 30, 2015 as compared to RMB573 million for the same period in 2014, primarily attributable to an increase in our wealth management service fees.

Our total assets amounted to RMB176,560 million as of September 30, 2015, representing a 4.2% increase from RMB169,409 million as of June 30, 2015, primarily attributable to an increase in investment securities and other financial assets. Our total loans to customers (before taking into account the related allowance for impairment losses) amounted to RMB68,539 million as of September 30, 2015, representing a 2.0% decrease from RMB69,959 million as of June 30, 2015, primarily due to a decrease in our corporate loans, which was partially offset by an increase in our personal loans. Our total investment securities and other financial assets (before taking into account the related allowance for impairment losses) amounted to RMB77,170 million as of September 30, 2015, representing a 10.2% increase from RMB70,035 million as of June 30, 2015, primarily due to our increased holding of debt securities as well as wealth management products issued by financial institutions. Our total deposits from customers amounted to RMB108,675 million as of September 30, 2015, representing a 6.6% increase from RMB101,971 million as of June 30, 2015, primarily attributable to an increase in our personal deposits, reflecting our continued efforts to grow our retail banking business. Our total equity amounted to RMB12,672 million as of September 30, 2015, representing a 4.6% increase from RMB12,115 million as of June 30, 2015, primarily attributable to an increase in our retained earnings.

The unaudited financial information as of and for the nine months ended September 30, 2015 has been derived from our interim financial statements as of and for the nine months ended September 30, 2015, which have been reviewed by our reporting accountants in accordance with the Hong Kong Standard on Review Engagement 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

As of September 30, 2015, our core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio as calculated pursuant to the Capital Administrative Measures was 10.44%, 10.44% and 13.15%, respectively, all in compliance with the CBRC requirements.

Our Directors have confirmed that, since June 30, 2015 and up to the date of this prospectus, there has been no material adverse change in our financial or trading position.

LISTING EXPENSES

We incur expenses in connection with the Listing, which include professional fees, underwriting commission and other fees. Listing expenses to be borne by us are estimated to be approximately RMB137 million. None of the listing expenses were reflected in our statements of profit or loss and other comprehensive income during the Track Record Period. After June 30, 2015, approximately RMB32 million is expected to be charged to our statements of profit or loss and other comprehensive income, and approximately RMB105 million is expected to be accounted for as a deduction from equity. The listing expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate. Our Directors do not expect such expenses to have a material adverse impact on our results of operation for the year ending December 31, 2015.

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

"Application Form(s)"	**WHITE, YELLOW** and **GREEN** application form(s) or, where the context so requires, any of them, relating to the Hong Kong Public Offering
"Articles of Association" or "Articles"	our articles of association, the version of which was adopted by our Shareholders at the annual general meeting on April 10, 2015 and was approved by CBRC Qingdao Office on May 18, 2015 which will become effective upon the Listing, as the same may be amended, supplemented or otherwise modified from time to time
"ATM(s)"	automated teller machine(s)
"Bank," "we" or "us"	Bank of Qingdao Co., Ltd. (青島銀行股份有限公司), a joint stock company incorporated on November 15, 1996 in Qingdao, Shandong Province, China with limited liability in accordance with PRC laws, and, if the context requires, includes its predecessors, branches and sub-branches
"Banking (Disclosure) Rules"	the Banking (Disclosure) Rules, Chapter 155M of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Banking Ordinance"	the Banking Ordinance, Chapter 155 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Basel III"	the revised Basel Capital Accord promulgated in December 2010
"Board" or "Board of Directors"	our board of Directors, as described in Appendix V—"Summary of Articles of Association"
"Brilliance Ratings"	Shanghai Brilliance Credit Rating & Investors Service Co., Ltd., a PRC credit rating agency
"building ownership certificates"	building ownership certificates in the PRC (中華人民共和國房屋所有權證)
"Business Day"	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business
"CAGR"	compound annual growth rate
"Capital Adequacy Measures"	the Measures on the Administration of Capital Adequacy Ratios of Commercial Banks (商業銀行資本充足率管理辦法) promulgated by CBRC on February 23, 2004, effective as of March 1, 2004 and amended on July 3, 2007, which was later abolished by the Capital Administrative Measures on January 1, 2013

"Capital Administrative Measures"	the Administrative Measures for the Capital of Commercial Banks (Trial) (商業銀行資本管理辦法（試行）) promulgated by CBRC on June 7, 2012 and effective on January 1, 2013
"CBRC"	the China Banking Regulatory Commission (中國銀行業監督管理委員會)
"CBRC Qingdao Office"	the China Banking Regulatory Commission Qingdao Office (中國銀行業監督管理委員會青島監管局)
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"China" or "PRC"	the People's Republic of China, but for the purpose of this prospectus only and except where the context requires, excluding Hong Kong, Macau and Taiwan
"CIRC"	the China Insurance Regulatory Commission (中國保險監督管理委員會)
"City Commercial Banks"	city commercial banks established with the approval of CBRC and other regulatory authorities pursuant to the PRC Company Law and the PRC Commercial Banking Law
"Classification Standards of Small and Medium Enterprises"	the Classification Standards of Small and Medium Enterprises (中小企業劃型標準規定) jointly promulgated by the PRC Ministry of Industry and Information Technology, NBS, NDRC and MOF on June 18, 2011, which classifies SMEs in 16 industries into medium, small and micro enterprises with consideration of the nature of the industry in terms of number of employees, operating income, and total assets
"commercial banks"	all of the banking institutions in the PRC, other than policy banks, which includes the Large Commercial Banks, the Nationwide Joint-stock Commercial Banks, City Commercial Banks and urban credit cooperatives, rural cooperative financial institutions, foreign banks and other banking institutions

"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Companies (Winding up and Miscellaneous Provisions) Ordinance"	the Companies (Winding up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Core Indicators (Trial)"	the Core Indicators for the Risk Management of Commercial Banks (Trial) (商業銀行風險監管核心指標（試行）), as promulgated by CBRC on December 31, 2005 and effective on January 1, 2006, as amended, supplemented or otherwise modified from time to time
"Corporate Governance Guidelines"	the Guidelines on Corporate Governance of Commercial Banks (商業銀行公司治理指引), as promulgated by CBRC on July 19, 2013 and effective on the same date, as amended, supplemented or otherwise modified from time to time
"CSRC"	the China Securities Regulatory Commission (中國證券監督管理委員會)
"Director(s)"	our director(s)
"Domestic Shares"	ordinary shares issued by our Bank, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in RMB
"GDP"	gross domestic product
"GFA"	gross floor area
"Global Offering"	the Hong Kong Public Offering and the International Offering
"Green Application Form(s)"	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
"Haier"	Qingdao Haier Collective Asset Management Association (青島海爾集體資產管理協會), Haier Group Corporation (海爾集團公司), each established or incorporated in the PRC, and their respective subsidiaries. For details of their shareholdings in our Bank, see "Our History and Development" and "Substantial Shareholders"
"H Share Registrar"	Computershare Hong Kong Investor Services Limited
"H Shares"	our ordinary shares in the share capital with a nominal value of RMB1.00 each, which are to be subscribed for and traded in Hong Kong Dollars and are to be listed on the Hong Kong Stock Exchange

"HK$" or "HKD" or "Hong Kong Dollars"	Hong Kong Dollars, the lawful currency of Hong Kong
"HKMA"	the Hong Kong Monetary Authority
"HKSCC"	the Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Offer Shares"	the 99,000,000 H Shares initially offered by the Bank (subject to adjustment) pursuant to the Hong Kong Public Offering
"Hong Kong Public Offering"	the offer for subscription of the Hong Kong Offer Shares (subject to adjustment) by the public in Hong Kong at the Offer Price and on, and subject to, the terms and conditions of this prospectus and the Application Forms, as further described in "Structure of the Global Offering—The Hong Kong Public Offering"
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
"Hong Kong Underwriters"	the underwriters of the Hong Kong Public Offering listed in "Underwriting—Hong Kong Underwriters"
"Hong Kong Underwriting Agreement"	the underwriting agreement dated November 19, 2015 entered into by, among others, the Hong Kong Underwriters and us relating to the Hong Kong Public Offering, as further described in "Underwriting"
"IFRS"	International Financial Reporting Standards and International Accounting Standards ("IAS"), which include the related standards, amendments and interpretations issued by the International Accounting Standards Board ("IASB")
"International Offer Shares"	the 891,000,000 H Shares initially offered by the Bank and the Selling Shareholders pursuant to the International Offering together, where relevant, with any additional H Shares that may be issued or sold pursuant to any exercise of the Over-allotment Option, subject to adjustment as described in "Structure of the Global Offering"
"International Offering"	the conditional placing of the International Offer Shares by the International Underwriters with professional and institutional investors for cash at the Offer Price, in the United States to

	QIBs in reliance on Rule 144A and outside the United States in offshore transactions in accordance with Regulation S, as further described in "Structure of the Global Offering"
"International Underwriters"	the group of underwriters who are expected to enter into the International Underwriting Agreement to underwrite the International Offering
"International Underwriting Agreement"	the underwriting agreement relating to the International Offering, which is expected to be entered into among, among others, our Bank, the Selling Shareholders and the International Underwriters, as further described in "Underwriting"
"ISP"	Intesa Sanpaolo S.p.A., a company incorporated in Italy and one of our substantial shareholders. For details of its shareholding in our Bank, see "Our History and Development"
"Joint Bookrunners" and "Joint Lead Managers"	Goldman Sachs (Asia) L.L.C., AMTD Asset Management Limited, CLSA Limited, Haitong International Securities Company Limited, ABCI Capital Limited (as to Joint Bookrunner only), ABCI Securities Company Limited (as to Joint Lead Manager only), China Merchants Securities (HK) Co., Limited, Guosen Securities (HK) Capital Company Limited, CCB International Capital Limited, Guotai Junan Securities (Hong Kong) Limited, BNP Paribas Securities (Asia) Limited and BANCA IMI S.p.A (in relation to the International Offering only)
"Joint Global Coordinators"	Goldman Sachs (Asia) L.L.C., AMTD Asset Management Limited and CLSA Limited
"Joint Sponsors"	Goldman Sachs (Asia) L.L.C. and CITIC CLSA Capital Markets Limited
"Large Commercial Banks"	Industrial and Commercial Bank of China Limited, Agricultural Bank of China Limited, Bank of China Limited, China Construction Bank Corporation, and Bank of Communications Co., Ltd., collectively
"Large Enterprises"	enterprises other than those classified as medium, small or micro enterprises under the Classification Standards of Small and Medium Enterprises. For example, industrial enterprises with 1,000 or more employees and operating income of RMB400 million or more shall be classified as large enterprises
"Latest Practicable Date"	November 13, 2015, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication

"Listing"	the listing of our H Shares on the Hong Kong Stock Exchange
"Listing Date"	the date, expected to be on or about Thursday, December 3, 2015, on which dealings in the H Shares first commence on the Hong Kong Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"Mandatory Provisions"	the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (到境外上市公司章程必備條款), which were promulgated by the former Securities Commission of the State Council and the former State Restructuring Commission on August 27, 1994, effective on the same date, as amended, supplemented or otherwise modified from time to time
"medium enterprises"	the enterprises classified as medium enterprises based on the number of their employees, operating income, and total assets under the Classification Standards of Small and Medium Enterprises. For example, industrial enterprises with fewer than 1,000 employees or operating income of less than RMB400 million shall be classified as SMEs, among which those with 300 or more employees and operating income of RMB20 million or more shall be classified as medium enterprises
"micro enterprises"	the enterprises classified as micro enterprises based on the number of their employees, operating income, and total assets under the Classification Standards of Small and Medium Enterprises. For example, industrial enterprises with fewer than 20 employees or operating income of less than RMB3 million shall be classified as micro enterprises
"MOF"	the Ministry of Finance of the PRC (中華人民共和國財政部)
"NAFMII"	The National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會)
"NAO"	the National Audit Office of the PRC (中華人民共和國審計署)
"Nationwide Joint-stock Commercial Banks"	China CITIC Bank Corporation Limited, China Everbright Bank Co., Ltd., Huaxia Bank Co., Limited, China Guangfa Bank Co., Ltd., Ping An Bank Co., Ltd. (formerly named as Shenzhen Development Bank Co., Ltd.), China Merchants Bank Co., Ltd., Shanghai Pudong Development Bank Co., Ltd.,

	Industrial Bank Co., Ltd., China Minsheng Bank Corp., Ltd., Evergrowing Bank Co., Ltd., Zheshang Bank Co., Ltd. and China Bohai Bank Co., Ltd., collectively
"NBS"	the National Bureau of Statistics of the PRC (中華人民共和國國家統計局)
"NDRC"	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
"non-performing loans" or "NPL"	for the purposes of this prospectus, is used synonymously with "impaired loans and advances" in Note 19 to the Accountants' Report in Appendix I to this prospectus
"non-performing loan ratio" or "NPL ratio"	the percentage ratio calculated by dividing non-performing loans by total loans
"NSSF"	the National Council for Social Security Fund of the PRC (全國社會保障基金理事會)
"Offer Price"	the final price per Offer Share in Hong Kong Dollars (exclusive of brokerage fee of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%) at which the H Shares are to be subscribed for and issued pursuant to the Global Offering. For details, see "Structure of the Global Offering"
"Offer Shares"	the Hong Kong Offer Shares and the International Offer Shares together, where relevant, any additional H Shares to be issued and sold pursuant to the exercise of the Over-allotment Option
"Over-allotment Option"	the option to be granted by our Bank and the Selling Shareholders to the International Underwriters exercisable by the Joint Global Coordinators on behalf of the International Underwriters pursuant to which our Bank and the Selling Shareholders may be required to allot and issue or sell up to an aggregate of 148,500,000 additional H Shares (representing approximately 15% of the initial Offer Shares), at the Offer Price, solely to cover over-allocations in the International Offering, if any, details of which are described in "Underwriting—The International Offering"
"PBoC"	The People's Bank of China (中國人民銀行), the central bank of the PRC
"PRC Commercial Banking Law"	the Commercial Banking Law of the PRC (中華人民共和國商業銀行法), which was promulgated by the 13th

	session of the Standing Committee of the 8th National People's Congress on May 10, 1995 and became effective on July 1, 1995, as amended, supplemented or otherwise modified from time to time
"PRC Company Law"	the Company Law of the PRC (中華人民共和國公司法), as enacted by the 5th session of the Standing Committee of the 8th National People's Congress on December 29, 1993 and became effective on July 1, 1994, as amended, supplemented or otherwise modified from time to time
"PRC GAAP"	the PRC Accounting Standards for Business Enterprises (中國企業會計準則) promulgated by MOF and its supplementary regulations, as amended, supplemented or otherwise modified from time to time
"PRC PBoC Law"	the Law of the People's Bank of China of the PRC (中華人民共和國中國人民銀行法), which was promulgated by the 3rd session of the 8th National People's Congress on March 18, 1995 and became effective on the same date, as amended, supplemented or otherwise modified from time to time
"PRC Banking Supervision and Regulatory Law"	the Banking Supervision and Regulatory Law of the People's Republic of China (中華人民共和國銀行業監督管理法), which was promulgated by the 6th session of the Standing Committee of the 10th National People's Congress on December 27, 2003 and became effective on February 1, 2004, as amended, supplemented or otherwise modified from time to time
"Price Determination Date"	the date, expected to be on or around Wednesday, November 25, 2015, but in any event no later than Wednesday, December 2, 2015, on which the Offer Price is fixed for the purposes of the Global Offering
"QIBs"	qualified institutional buyers as defined in Rule 144A
"Qingdao Conson"	Qingdao Conson Industrial Co., Ltd. (青島國信實業有限公司), a company incorporated in the PRC and one of our substantial shareholders. For details of its shareholding in our Bank, see "Our History and Development"
"Qingdao Metro Group"	Qingdao Metro Group Co., Ltd. (青島地鐵集團有限公司)
"Qingdao Port"	Qingdao Port (Group) Co., Ltd. (青島港（集團）有限公司)

"Regulation S"	Regulation S under the U.S. Securities Act
"Related Party" or "Related Parties"	has the meaning ascribed to it under the Administrative Measures for the Related Party Transactions between the Commercial Banks and their Insiders or Shareholders (商業銀行與內部人和股東關聯交易管理辦法) promulgated by CBRC
"Related Party Transaction(s)"	has the meaning ascribed to it under the Administrative Measures for the Related Party Transactions between the Commercial Banks and their Insiders or Shareholders promulgated by CBRC
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"Rothschilds"	Rothschilds Continuation Holdings AG, a company incorporated in Switzerland and one of our shareholders. For details of its shareholding in our Bank, see "Our History and Development"
"Rule 144A"	Rule 144A under the U.S. Securities Act
"SAFE"	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SAIC"	the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
"Sale Shares"	the 90,000,000 H Shares to be sold by the Selling Shareholders in the Global Offering (assuming the Over-allotment Option is not exercised); and, where relevant, any additional H Shares which may be sold by the Selling Shareholders pursuant to the exercise of the Over-allotment Option; for more information, see "Share Capital—Transfer and Sale of State-owned Shares". The Selling Shareholders will convert an equal number of Domestic Shares held by them to be offered for sale as the Sale Shares, subject to any adjustments as provided in "Structure of the Global Offering—Selling Shareholders"; references to "Sale Shares" shall include, where the context requires, the Domestic Shares from which the Sale Shares are converted
"SASAC"	the State-owned Assets Supervision and Administration Commission of the State Council (中華人民共和國國務院國有資產監督管理委員會)
"SAT"	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)

"Selling Shareholders"	18 selling shareholders whose names and their respective number of Sale Shares are further described in "Information about this Prospectus and the Global Offering—Selling Shareholders"
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Shanghai-Hong Kong Stock Connect"	a securities trading and clearing links program developed by the Hong Kong Stock Exchange, Shanghai Stock Exchange, HKSCC and the China Securities Depository and Clearing Co., Ltd. for the establishment of mutual market access between Hong Kong and Shanghai, including Southbound Trading and Northbound Trading
"Shares"	our ordinary shares in the share capital with a nominal value of RMB1.00 each
"Shareholder(s)"	the holder(s) of the Shares
"SHIBOR"	the Shanghai Interbank Offered Rate
"small enterprises"	the enterprises classified as small enterprises based on the number of their employees, operating income, and total assets under the Classification Standards of Small and Medium Enterprises. For example, industrial enterprises with fewer than 300 employees or operating income of less than RMB20 million shall be classified as small or micro enterprises, among which those with 20 or more employees and operating income of RMB3 million or more shall be classified as small enterprises
"SMEs"	the enterprises classified as micro enterprises, small enterprises and medium enterprises based on the number of their employees, operating income, and total assets under the Classification Standards of Small and Medium Enterprises. For example, industrial enterprises with fewer than 1,000 employees or operating income of less than RMB400 million shall be classified as SMEs
"Special Regulations"	the Special Regulations of the State Council on the Overseas Offering and the Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定), which was promulgated by the State Council on August 4, 1994, as amended, supplemented or otherwise modified from time to time

"Stabilizing Manager"	Goldman Sachs (Asia) L.L.C.
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"Supervisor(s)"	our supervisor(s)
"Track Record Period"	the three years ended December 31, 2012, 2013 and 2014 and the six months ended June 30, 2015
"Underwriters"	the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
"Unlisted Foreign Shares" or "Foreign Shares"	unlisted ordinary shares issued by our Bank, with a nominal value of RMB1.00 each, which are held by ISP and Rothschilds prior to the Listing
"US$", "USD" or "U.S. dollars"	United States dollars, the lawful currency of the United States of America
"U.S. Securities Act"	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
"White Application Form(s)"	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be issued in the applicant's own name
"White Form eIPO"	the application for Hong Kong Public Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website of White Form eIPO Service at **www.eipo.com.hk**
"White Form eIPO Service Provider"	Computershare Hong Kong Investor Services Limited
"Yellow Application Form(s)"	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be deposited directly into CCASS

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

Unless the context otherwise requires, the terms including "associate(s)", "close associate(s)", "connected person(s)", "connected transaction(s)" and "substantial shareholder(s)" shall have the meanings ascribed to them under the Listing Rules.

Assets under management of the financial market business referred to in this prospectus include deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets measured at fair value and the change to which is included in the current profits and losses, financial assets held under resale agreements, financial investments and balance of non-principal-protected wealth management products.

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

If there are any inconsistencies between the Chinese names of entities or enterprises established in China and their English translations, the Chinese names shall prevail.

This prospectus contains certain forward-looking statements and information relating to us that are based on the beliefs of, assumptions made by and information currently available to our management. When used in this prospectus, the words “aim”, “anticipate”, “believe”, “could”, “predict”, “potential”, “continue”, “expect”, “going forward”, “intend”, “may”, “ought to”, “plan”, “project”, “seek”, “should”, “will”, “would” and the negative forms of these words and other similar expressions, as they relate to our Bank or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our Bank’s management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing our Bank which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our operations and business prospects, including our development plans for our existing and new products;
- our business development strategies and initiatives to implement these strategies;
- general economic, market and business conditions in Qingdao, Shandong Province or the PRC and any changes thereto;
- our existing risk management system and our ability to improve such system;
- our dividend policy;
- our financial condition, results of operation and performance;
- the amount and nature of, potential for and future development of, our business;
- future developments, trends and conditions in the industry and markets in which we operate;
- changes to the regulatory environment and general outlook in the industry and markets in which we operate;
- the products, actions and developments of our competitors;
- general political and economic conditions; and
- capital market developments.

Subject to the requirements of applicable laws, rules and regulations, we do not intend to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. The forward-looking statements in this prospectus are qualified by reference to the cautionary statements set out in this section.

You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our H Shares. Our business, financial condition and results of operation could be materially and adversely affected by any of these risks. The trading price of our H Shares could significantly decrease due to any of these risks, and you may lose part or even all of your investment. You should also pay particular attention to the fact that we are a PRC company and are governed by a legal and regulatory system which in some respects may differ from those prevailing in other countries. For more information concerning the laws and regulatory systems of the PRC and certain related matters discussed below, see "Supervision and Regulation", Appendix IV— "Summary of Principal Legal and Regulatory Provisions" and Appendix V— "Summary of Articles of Association".

RISKS RELATING TO OUR BUSINESS

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

Our gross loans and advances to customers were RMB45,723 million, RMB55,630 million, RMB62,988 million and RMB69,959 million as of December 31, 2012, 2013 and 2014 and June 30, 2015, respectively. As of the same dates, our NPL ratio was 0.76%, 0.75%, 1.14% and 1.19%, respectively. Our financial condition and results of operation will be affected by our ability to maintain or improve the quality of our loan portfolio. We cannot assure you that the quality of our loans to customers will not deteriorate. Deterioration in the overall quality of our loan portfolio may occur due to a variety of reasons, including a slowdown of the PRC and Shandong Province economies, other adverse macroeconomic developments in China and other regions and outbreak of disasters, all of which may adversely affect the businesses, operations or liquidity of our borrowers or their ability to service their debt. Any deterioration in our asset quality may lead to significant increases in our non-performing loans, allowance for impairment losses and loans written off due to impairment, which may materially and adversely affect our business, financial condition and results of operation.

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

Our allowance for impairment losses on loans and advances to customers was RMB1,227 million, RMB1,524 million, RMB1,740 million and RMB1,823 million as of December 31, 2012, 2013 and 2014 and June 30, 2015, respectively, and our allowance coverage ratio was 352.59%, 365.47%, 242.34% and 218.59%, respectively. Our allowance to gross loan ratio for our customer loans was 2.68%, 2.74%, 2.76% and 2.61%, respectively, as of the same dates. We made net provisions for impairment losses on loans to customers of RMB283 million, RMB347 million and RMB360 million in 2012, 2013 and 2014, respectively. For the six months ended June 30, 2015, we made a net provision of RMB220 million for impairment losses on loans to customers. The amount of allowance for impairment losses is based on our assessment of various factors affecting the quality of our loan portfolio under IAS 39. These factors include our borrowers' operational and financial condition, repayment ability and repayment intention, the realizable value of any collateral and the ability of the guarantors of our customers to fulfill their obligations, as well as China's economic, legal and regulatory environment. Many of these factors are beyond our control, and therefore our assessment and expectations on these factors may differ from their future developments. In addition, our allowance for impairment losses may increase as a result of changes in future regulatory and accounting policies, deviations in loan classification, or adoption of a more conservative provisioning practice. Any of the above factors may significantly reduce our profit and materially and adversely affect our business, financial condition and results of operation.

We face concentration risks from our credit exposure to certain industries and borrowers.

As of December 31, 2012, 2013 and 2014 and June 30, 2015, our corporate loans represented 75.4%, 75.7%, 74.3% and 73.5%, respectively, of our gross loans and advances to customers. As of June 30, 2015, loans to the manufacturing industry and the wholesale and retail industry represented 37.6% and 14.8% of our corporate loans, respectively, and non-performing loans to the manufacturing industry and the wholesale and retail industry accounted for 37.7% and 50.2% of our total non-performing corporate loans, respectively.

Any deterioration in any of the industries in which our loans are highly concentrated or any deterioration in the financial condition or results of operation of our borrowers in the relevant industries could undermine the quality of our existing loans and our ability to grant new loans to relevant industries, which in turn could materially and adversely affect our business, financial condition and results of operation.

As of June 30, 2015, loans to our ten largest single borrowers totaled RMB6,110 million, representing 40.31% of our regulatory capital, which were all classified as normal. At the same date, our credit exposure to our ten largest group customers totaled RMB8,672 million, representing 57.22% of our regulatory capital. If the quality of any of these loans deteriorates or becomes non-performing, our asset quality could deteriorate significantly, and our financial condition and results of operation could be materially and adversely affected.

The collateral or guarantees securing our loans and advances to customers may not be sufficient or fully realizable.

As of June 30, 2015, 42.8%, 10.7% and 39.3% of our loans and advances to customers were secured by mortgages, pledges and guarantees, respectively. The collateral securing our loans and advances to customers primarily comprised land use rights, buildings and houses, machinery and equipment, equity securities, bonds, certificates of deposit and other assets. The value of the collateral securing our loans may fluctuate and decline due to various factors beyond our control, including macroeconomic factors affecting China. For example, a slowdown in the PRC economy may lead to a downturn in the real estate market, which may in turn result in declines in the value of the real estate securing our loans to levels below the outstanding principal balance of such loans. In addition, we cannot assure you that our assessment of the values of collateral will be accurate at all times. If our collateral proves to be insufficient to cover the related loans, we may have to obtain additional collateral from the borrowers and there is no assurance that we would be able to do so. Declines in the price of our collateral or our inability to obtain additional collateral may result in additional allowance for loan impairment, which may materially and adversely affect our business, financial condition and results of operation.

In the PRC, the procedures for liquidating or otherwise realizing the value of collateral may be time-consuming, the value of collateral may not be fully realized, and it may be difficult to enforce claims in respect of such collateral. In addition, under certain circumstances, other claims may be senior or prior to our claims to the collateral securing our loans. All of the foregoing factors could adversely affect our ability to realize the value of the collateral securing our loans in a timely manner or at all.

The guarantees under our guaranteed loans are generally not backed by collateral or other security interests. In addition, some of the guarantees are provided by affiliates of the relevant borrower, so that certain factors which result in a borrower's inability to repay a guaranteed loan in full and on time may also affect the guarantor's ability to fully perform its guarantee obligations and, therefore, expose us to additional risks. Furthermore, we are subject to the risk that a court or any other judicial or government authority may declare a guarantee invalid or otherwise decline or fail to enforce such guarantee. We are therefore exposed to the risk that we may not be able to recover all or part of our guaranteed loans. If we are unable to dispose of assets of borrowers and guarantors or if the guarantors fail to fully perform their guarantee obligations on a timely basis, our business, financial condition and results of operation may be adversely affected.

As of June 30, 2015, unsecured loans accounted for 7.2% of our loans and advances to customers. We grant such unsecured loans mainly based on our credit evaluation of such customers. We cannot assure you that our credit assessments of such customers are or will be accurate at all times, or that such customers will repay their loans in full and on time. As we only have general claims on the assets of defaulting borrowers under unsecured loans, we are exposed to a relatively high risk of losing the entire amounts outstanding under such loans, which may adversely affect our business, financial condition and results of operation.

We are exposed to risks arising from loans granted to small and micro enterprises.

We are exposed to credit risks arising from loans granted to small and micro enterprises. As of December 31, 2012, 2013 and 2014 and June 30, 2015, our corporate loans to small and micro enterprises represented 43.2%, 41.3%, 48.6% and 48.1%, respectively, of our total corporate loans. Small and micro enterprises are more vulnerable to macroeconomic fluctuations, as they may lack the financial, management or other resources necessary to withstand the adverse effects brought by economic slowdown or changes in the regulatory environment as compared with larger enterprises. In addition, we may not be able to obtain all the information on small and micro enterprises which is necessary for us to assess their credit risk. Our non-performing loans may increase significantly due to the effects caused by the economic slowdown or unfavorable changes in the regulatory environment on our small and micro enterprise customers, which may materially and adversely affect our business, financial condition and results of operation.

Our asset quality, financial condition or results of operation may be materially and adversely affected if the repayment ability of local government financing vehicles deteriorates or the government policies affecting local government financing vehicles change.

Similar to other commercial banks in the PRC, we provide loans to local government financing vehicles. Local government financing vehicles refer to corporate entities with independent legal capacity established by local governments as well as other departments and institutions through fiscal budget allocation or injection of assets such as land and equity, responsible for financing government-invested projects. Our borrowers who are local government financing vehicles typically use loan proceeds to make investments in infrastructure, relocation of residents from, and renovation of, old districts and development of public interest projects, and repay us with operating cash flows generated from such projects and local government budget. For example, Qingdao City Construction Investment (Group) Company Limited (青島城市建設投資（集團）有限責任公司), one of our top ten group customers, is one of the largest companies invested by the Qingdao Government, which is mainly engaged in infrastructure construction in urban and rural areas as well as tourism. As of June 30, 2015, our loans to local government financing vehicles amounted to RMB3,698 million, representing 7.2% of our total loans and advances to corporate customers. A majority of these loans were secured by collateral or guarantees. In addition, as of June 30, 2015, none of our loans to local government financing vehicles was non-performing. See "Risk Management—Credit Risk Management".

Apart from extending loans to local government financing vehicles, we also provide financing to local government financing vehicles through our investments in debt securities issued by corporate issuers, trust fund plans and asset management plans. As of December 31, 2012, 2013 and 2014 and June 30, 2015, our total credit exposure to local government financing vehicles amounted to RMB4,027 million, RMB6,290 million, RMB14,793 million and RMB16,613 million, respectively, representing 4.0%, 4.6%, 9.5% and 9.8%, respectively, of our total assets at the corresponding dates. The following table sets forth a breakdown of our total exposure to local government financing vehicles as of the dates indicated.

	As of December 31,			As of June 30,
	2012	2013	2014	2015
	(in millions of RMB)			
Loans	3,627	3,580	4,043	3,698
Bond investments	—	510	1,010	980
Trust fund plans	400	1,500	6,260	4,640
Asset management plans	—	700	3,480	7,295
Total exposure to local government financing vehicles	**4,027**	**6,290**	**14,793**	**16,613**

Pursuant to applicable PRC regulations, unless otherwise provided by laws and the State Council, local governments and their departments, organizations, and institutions funded primarily by fiscal budget are not permitted to provide guarantees for the financing activities of local government financing vehicles by using fiscal income or state-owned assets of administrative institutions or otherwise directly or indirectly. In addition, many projects sponsored by local government financing vehicles are carried out primarily for public interest purposes and are not necessarily commercially viable and, therefore, the operating cash flows generated from such projects may not be sufficient to cover the principal of and interest on the relevant loans. As a result, the ability of a local government financing vehicle to repay its loans may depend, to a significant extent, on its ability to receive financing support from the government, whose support may not always be available due to the government's liquidity, budgeting priorities and other considerations. In recent years, the State Council, CBRC and PBoC, together with several other PRC regulatory authorities, have promulgated a series of notices, guidelines and other regulatory measures that direct PRC banks and other financial institutions to improve and strengthen their risk management measures regarding loans to local government financing vehicles. For further details, see "Supervision and Regulation—Regulations on Principal Commercial Banking Activities".

We have adopted measures both on our own initiative and in response to these regulatory directives to control our risk exposure to local government financing vehicles, including strengthening credit extension and monitoring mechanism and establishing risk alert systems for loans to local government financing vehicles. For details of such measures, see "Risk Management—Credit Risk Management". Slowdown in macroeconomy, unfavorable changes in governmental policies, deterioration in the financial condition of local governments and other factors may undermine the repayment capabilities of relevant local government financing vehicles, which may in turn materially and adversely affect our asset quality, financial condition and results of operation. We cannot assure you that the measures taken by us are sufficient to protect us against any default by local government financing vehicle borrowers.

We are subject to risks relating to our investments in non-standard credit assets.

During the Track Record Period, we made investments in non-standard credit assets, including trust fund plans, asset management plans, wealth management products issued by financial institutions, beneficiary rights in margin financing business, and beneficiary certificates. For a detailed description of these non-standard credit assets, see "Business—Our Principal Business Lines—Financial Market Business—Investment Business".

As of December 31, 2012, 2013 and 2014 and June 30, 2015, the balance of our investments in non-standard credit assets with funds at our disposal amounted to RMB782 million, RMB20,293 million, RMB27,461 million and RMB37,619 million, respectively, representing 0.8%, 15.0%, 17.6% and 22.2%, respectively, of our total assets at the corresponding dates. For the years ended December 31, 2012, 2013 and 2014 and the six months ended June 30, 2015, interest income from our investments in non-standard credit assets amounted to RMB11 million, RMB627 million, RMB1,391 million and RMB1,040 million, respectively, representing 0.2%, 10.2%, 18.3% and 27.9%, respectively, of our total interest income for those periods.

Income from these non-standard credit assets is generally fixed or determinable. The repayment of principal of and returns on such assets is typically guaranteed by financial institutions in the PRC or secured by collateral provided by ultimate borrowers, including properties, land use rights and certificates of deposit. In order to control risks, we typically conduct due diligence investigations on the ultimate borrowers and the financed projects underlying the trust fund plans for single beneficiaries in accordance with our review and approval procedures for corporate loans, and assess the creditworthiness and qualifications of the respective trust companies, securities companies and other relevant financial institutions (where applicable) for other non-standard credit assets. See "Risk Management—Credit Risk Management—Credit Risk Management for Our Financial Market Business—Risk Management for Our Investments in Non-standard Credit Assets". We may not be able to receive repayment of principal of and returns on these non-standard credit assets as a result of material and adverse changes to the financial conditions of the trust companies, securities companies or the ultimate borrowers. We may not be able to rely on the guarantees, or liquidate or realize the value of the collateral, provided by the ultimate borrowers, as such guarantees and collateral are provided to the trust companies and securities companies instead of us.

Investments in non-standard credit assets carry certain credit risk. We make investment decisions based on our own assessment of the issuers of these non-standard credit asset products and the ultimate borrowers for such products to achieve the agreed-upon return rates. If the agreed-upon return rates cannot be achieved or the principal of our investments cannot be repaid, we primarily rely on the issuers to reduce our losses and exercise our rights under the related contracts and guarantees to recover losses from the issuers and the guaranteeing financial institutions (if any). We do not have direct recourse to the ultimate borrowers or their guarantors in the underlying transactions. In addition, as non-standard credit assets are not traded on the PRC interbank market or stock exchanges, and there has not yet been an active trading market for non-standard credit assets, their liquidity is limited. As a result, we generally hold our non-standard credit assets to maturity.

Although PRC regulatory authorities do not currently restrict commercial banks from investing in non-standard credit assets, there can be no assurance that future changes in regulatory policies will not restrict commercial banks in China, including us, from investing in non-standard credit assets. In addition, adverse regulatory developments relating to these types of investments could cause declines in the value of the investment portfolio held by us and, as a result, may adversely affect our business, financial condition and results of operation.

We are subject to risks relating to wealth management products.

In recent years, we have increased the volume and expanded the range of wealth management products offered to our customers. As of June 30, 2015, the outstanding balance of our principal-protected wealth management products amounted to RMB3,825 million and the outstanding balance of our non-principal-protected wealth management products amounted to RMB26,922 million.

We have invested the funds raised from our wealth management products in, among other things, money market instruments, bonds, non-standard credit assets and equity products. Compared to money market instruments and bonds, investments in non-standard credit assets may involve certain risks that are beyond our control. For the years ended December 31, 2012, 2013 and 2014 and the six months ended June 30, 2015, our investments in non-standard credit assets with funds raised from our wealth management products amounted to RMB1,264 million, RMB3,470 million, RMB5,347 million and RMB4,968 million, respectively, representing 22.3%, 34.0%, 21.9% and 16.2%, respectively, of the outstanding balance of our wealth management products at the corresponding dates.

As most of the wealth management products issued by us are non-principal-protected, we are not liable for any loss suffered by the investors in these products. However, to the extent the investors suffer losses on these wealth management products, our reputation may be negatively affected and we may also suffer a loss of business and customer deposits. Furthermore, we may eventually bear losses for non-principal-protected products if the investors bring lawsuits against us and the court rules that we are liable for inadequate disclosure or otherwise.

In addition, the tenors of wealth management products issued by us are often shorter than those of their underlying assets. This mismatch subjects us to liquidity risk and requires us to issue new wealth management products, sell the underlying assets or otherwise address the funding gap when existing wealth management products mature. PRC regulatory authorities have introduced regulatory policies to restrict the size of PRC commercial banks' investments in non-standard credit assets with funds raised from wealth management products. See "Supervision and Regulation—Regulations on Principal Commercial Banking Activities—Wealth Management". If PRC regulatory authorities further restrict the wealth management business of PRC commercial banks, it could adversely affect our business, financial condition and results of operation.

We mainly rely on customer deposits to fund our business.

As a commercial bank, customer deposits remain our primary funding source. We rely on the growth in customer deposits to expand our loan business and meet other liquidity needs. Decreases in customer deposits will reduce our funding sources, which, in turn, will reduce our ability to extend new loans while meeting liquidity requirements. In recent years, our customer deposits have continued to grow. Our total customer deposits amounted to RMB75,648 million, RMB96,284 million, RMB101,734 million and RMB101,971 million as of December 31, 2012, 2013 and 2014 and June 30, 2015, respectively. However, there are various factors affecting the growth in our deposits, some of which are beyond our control, such as economic and political conditions, the availability of alternative investment products and changes in customers' preference for savings. As a result, we cannot assure you that we will be able to maintain the growth in our customer deposits at a pace that is sufficient to support our expanding business.

In addition, as of June 30, 2015, 85.6% of our total deposits from customers were demand deposits or time deposits due within one year. At the same date, 58.9% of our gross loans to customers were due within one year. There is a mismatch between the maturities of our liabilities and those of our assets. Based on our experience, a substantial portion of our short-term customer deposits are rolled over upon maturity, and these deposits have always represented a relatively stable source of funding. However, due to the increased availability of wealth management products and other investment products on the PRC financial markets as well as the financial disintermediation in recent years, certain customers may withdraw their deposits and invest in alternative products.

If we are unable to maintain the growth rate of our customer deposits, or a substantial portion of our customers withdraw their demand deposits or do not roll over their time deposits upon maturity, our ability to meet capital and other liquidity requirements may be materially and adversely affected and, as a result, we may need to seek funding from alternative sources, which may not be available on commercially acceptable terms. As a result, our business, financial condition and results of operation may be materially and adversely affected.

Our current risk management systems may not adequately protect us against credit, market, liquidity, operational and other risks.

Our risk management capabilities are limited by the information, tools or technologies available to us. For example, we may not be able to effectively monitor credit risk due to limited information sources or tools. In recent years, we have undertaken various initiatives to strengthen our risk management capabilities, including improving our internal credit rating mechanisms, operational risk management, measurement tools to assess market risk and liquidity risk, legal risk management, and reputational risk management and continually upgrading our information technology system. However, our ability to successfully execute such mechanisms and operate such systems and to monitor and analyze their effectiveness is subject to continuous testing and improvement. See "—Our business is highly dependent on the proper functioning and improvement of our information technology systems."

If we are not able to effectively improve our risk management and internal control policies, procedures and systems, or if we are not able to achieve the intended results of such policies, procedures or systems in a timely manner, our asset quality, business, financial condition and results of operation may be materially and adversely affected.

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

We are subject to capital adequacy regulations set by CBRC. See "Supervision and Regulation—Supervision over Capital Adequacy". Pursuant to the requirements of PRC banking regulatory authorities, our capital adequacy ratios of each tier shall remain no lower than the minimum capital adequacy requirements under the Capital Administrative Measures during the transitional period for the implementation thereof. Calculated in accordance with the Capital Administrative Measures, as of June 30, 2015, our core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio was 10.10%, 10.10% and 12.78%, respectively, all of which satisfy the requirements of PRC banking regulatory authorities. CBRC may increase the minimum capital adequacy requirements or change the methodology for calculating regulatory capital or capital adequacy ratios or we may otherwise be subject to new capital adequacy requirements.

Our ability to satisfy the current regulatory capital adequacy requirements could be adversely affected as a result of deterioration in our financial condition, including deterioration in the quality of our assets, such as an increase in non-performing loans, and a decline in our profitability. If our growth places capital demands on us in excess of what we are able to generate internally or raise in the capital markets, we may need to seek additional capital through alternative means. However, we may not be able to obtain additional capital on commercially acceptable terms in a timely manner or at all. Our ability to obtain additional capital may also be restricted by a number of factors, including our future business, financial condition, results of operation and cash flows, conditions prescribed by PRC law and regulatory approvals, general market conditions for capital-raising activities by commercial banks and other financial institutions, as well as economic, political and other conditions both within and outside China. We may face increased compliance and capital costs as a result of these capital requirements. Furthermore, as these capital adequacy requirements place restrictions on the ability of banks to leverage on their capital to achieve growth in their loan portfolios, our results of operation may be materially and adversely affected, and our capacity to further grow our business may be constrained. If at any time in the future we fail to meet these capital adequacy requirements, CBRC may take a series of measures upon us, including, for example, imposing restrictions on our lending and investment activities, restricting the growth of our loans and other assets, declining our application to launch new businesses or restricting our ability to declare or pay dividends. Such measures may materially and adversely affect our business, financial condition and results of operation.

We may not be able to successfully manage the growth of our overall business.

Our operating income was RMB2,887 million, RMB3,556 million and RMB4,365 million in 2012, 2013 and 2014, respectively. Our operating income was RMB2,399 million for the six months ended June 30, 2015, representing an increase of 8.2% from the same period in 2014. However, we may not be able to successfully maintain our growth if we fail to offer new products or provide new services to attract new customers, improve our marketing or expand our sales channels. We also may not succeed in expanding our branch network to establish our brand name in new markets and reach new customers. Our growth is closely related to the PRC economy as well as other macroeconomic factors affecting the PRC (and Shandong Province in particular), such as GDP growth, the inflation rate and changes in laws and regulations relating to the banking and financial industry. We may not be able to successfully maintain our growth rates due to any unfavorable change in one or more of the above factors or other factors.

In addition, the management of our growth requires, and will continue to require, substantial managerial and operational resources. We may not be able to retain and attract qualified personnel to satisfy our growth needs. See "—We rely on the continuing efforts of our key personnel and may not be able to recruit or retain a sufficient number of qualified staff." We may also need additional capital in the future, and we may not be able to obtain such capital on commercially acceptable terms to support the development of our business. Any occurrences of the above factors may materially and adversely affect our business, financial condition and results of operation.

We face uncertainties associated with national and local government policies and initiatives which are adopted to promote local economic development, and we are also exposed to risks due to our business and operational concentration in Qingdao.

We benefit from favorable policies adopted by the national and local governments to promote the economic development of Shandong Province and Qingdao. In 2011, the State Council approved the Plan for the Development of the Blue Economic Zone in the Shandong Peninsula (《山東半島藍色經濟區發展規劃》), which is the first strategy approved in the 12th Five-Year Plan of the PRC government. Qingdao is one of the five cities specifically designated in China's state plans (計劃單列市) and a major coastal city in the PRC. Recently, the PRC government announced a strategy to grow economic activity and trade along the "Silk Road Economic Belt (絲綢之路經濟帶)", the "21st Century Maritime Silk Road (21世紀海上絲綢之路)", and the so-called "One Belt and One Road (一帶一路)", which joins in Shandong Province and Qingdao. Moreover, the West Coast New Area of Qingdao has become the ninth national-level new district in the PRC, and the Development Plan of Blue Silicon Valley of Qingdao (《青島藍色硅谷發展規劃》) has been approved by the State Council.

We believe these policies are instrumental in the economic growth of Shandong Province and Qingdao, and expect our business to continue to benefit from these favorable government policies and initiatives and the business opportunities presented in connection with local economic growth. However, we cannot guarantee that the PRC government will maintain its favorable policies in promoting the development of Qingdao. Any discontinuation or unfavorable change in such policies may adversely affect our business, financial condition and results of operation.

Furthermore, our business and operations are primarily concentrated in Qingdao. As of June 30, 2015, 65.7% of our loans and 76.0% of our deposits were originated from our outlets in Qingdao. Although our business originated outside of Qingdao has increased gradually, most of our business and operations will remain in Qingdao and Shandong Province for the foreseeable future. Therefore, our continued growth depends to a large extent on the continued growth of the economy of Shandong Province and Qingdao and we are exposed to risks arising from concentration of credit in Shandong Province and Qingdao in terms of distribution of customers and geographical coverage. The GDP growth in the PRC and Shandong Province has experienced slowdowns in recent years. Any adverse change in the economic development of or any significant natural disaster or catastrophic event occurring in Shandong Province or Qingdao may materially and adversely affect our business, financial condition and results of operation.

We will be exposed to various risks as we expand the range of our products and services and our branch network.

We have continued to expand our offerings of products and services to our customers since our establishment and we will continue to implement our expansion plan in the future. We rely to a great extent on interest income. Net interest income has historically been the largest component of our operating income, representing more than 80% of our operating income in 2012, 2013 and 2014 and the six months ended June 30, 2015, respectively. As part of our growth strategy, we plan to introduce more fee- and commission-based products and services, such as a direct sales banking platform, credit cards and financial advisory services. We also proactively seek to pursue alliances with other financial service providers in China to offer a broader range of financial products that complement our existing products. Our expansion in our offerings of products and services has exposed and will continue to expose us to new and potentially increasingly challenging market and operational risks. As of June 30, 2015, we had 86 outlets in 9 cities in Shandong Province, including our head office and outlets. We also plan to further expand our branch network. However, our business plan to further expand the branch network may not be implemented successfully. If we fail to expand our business, our growth rate, financial condition and results of operation may be affected.

We face various risk factors in terms of our business expansion:

- our experience and expertise in managing new products and services;
- our ability to recruit additional qualified staff;
- our ability to provide satisfactory customer service, such as providing sufficient products and service information and handling customer complaints;
- acceptance of new products by our customers;
- our ability to establish an effective management team or to enhance our risk management systems and information technology system to support a broader range of products and services;
- our ability to identify and effectively manage all potential risks associated with our products and services; and
- the actions of our competitors and other financial service providers.

If we are unable to offer more fee- and commission-based products and other non-interest income products and services, we may continue to rely heavily on interest income, and may face pressures resulting from greater competition among banks for interest income and lower net interest margins from interest rate liberalization measures. See "—Risks Relating to the PRC Banking Industry—Further development of interest rate liberalization may materially and adversely affect our results of operation." As a result, our business, financial condition and results of operation could be materially and adversely affected.

Furthermore, if we are unable to obtain relevant regulatory approvals, or comply with relevant banking regulations in the sales and marketing of our new financial products and services, we may be subject to legal proceedings or regulatory sanctions, which in turn could lead to significant financial losses and reputational damages.

We may not be able to detect and prevent fraud or other misconduct committed by our employees or third parties, and we may be subject to other operational risks.

We are exposed to fraud or other misconduct committed by our employees or third parties, which could subject us to financial losses, third party claims, regulatory actions or reputational damages.

We cannot assure you that our internal control policies and procedures are effective and sufficient to prevent, or that we can otherwise fully detect or deter, all incidents of fraud and misconduct. In addition, improper acts of third parties against us, such as fraud, theft of customer information for illegal activities, robbery and certain armed crimes, may also expose us to certain risks. As a result, our business, financial condition and results of operation could be materially and adversely affected.

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

Our ability to maintain growth and meet future business demands is dependent upon the continued services of our senior management and other key personnel. In particular, our future success depends substantially upon the industry experience, experience in our business operations and sales and marketing skills of our key personnel. The departure of any member of our key personnel may have a material adverse effect on our business and results of operation. Moreover, we may face increasing competition in recruiting and retaining qualified staff, including our senior management, as other banks are competing for the same pool of qualified persons and our compensation packages may not be as competitive as those of our competitors. In addition, our employees may resign at any time and some of our employees are not subject to long-term employment contracts. There is no assurance that we will be able to recruit staff in sufficient numbers or with sufficient experience, or that competition in recruitment will not lead to increases in our employment costs. If we fail to recruit or retain a sufficient number of qualified staff, our business, financial condition and results of operation may be materially and adversely affected.

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

Our business is highly dependent on the ability of our information technology systems to support our business development and accurately process a large number of transactions in a timely manner. The proper functioning of our internal control, risk management, customer service and other data processing systems, together with the communication networks between our various branches and our main data processing centers, is critical to our business and our ability to maintain competitiveness. For further information with respect to our information technology systems, see "Business—Information Technology". In order to reduce risks caused by system failure, we conduct real-time data backup for our major systems and communications network and have established a disaster backup structure consisting of "three centers in two cities", which includes an operating center in Qingdao, a disaster back-up center in Qingdao and an offsite disaster recovery center in Shanghai. We cannot guarantee, however, that our operations will not be materially disrupted if there is a partial or complete failure of any of these information technology systems. We are also subject to the risk of telecommunication network or Internet breakdowns. Such failures could be caused by, among other things, software bugs, computer virus attacks, conversion errors due to system upgrading, an equipment provider's failure to provide proper system maintenance, or natural disasters. Any security breach caused by unauthorized access to information or systems, loss or corruption of data and malfunction of software, hardware or other computer equipment could materially and adversely affect our business, financial condition and results of operation.

In addition, our ability to remain competitive will depend in part on our ability to upgrade our information technology system in a timely and cost-effective manner in order to respond to market changes and other developments. Thus, any failure to improve or upgrade our information technology systems or develop new systems effectively or on a timely basis may materially and adversely affect our business, financial condition and results of operation.

If we fail to fully comply with the various regulatory requirements applicable to us, our reputation could be harmed and our business, financial condition and results of operation could be materially and adversely affected.

We are subject to the regulatory requirements and guidelines set forth by various PRC regulatory authorities, which include CBRC, PBoC, SAFE, CSRC, CIRC, MOF, NAO, SAIC and SAT. These regulatory authorities carry out periodic supervision and spot checks of banks like us and have the authority to impose penalties or remediation action based on their findings.

During the Track Record Period, we had incidents of failure to meet the requirements of the core liabilities ratio and liquidity gap ratio requirements under the Core Indicators (Trial). For details of such incidences, see "Supervision and Regulation—Other Operational and Risk Management Ratios". Effective March 1, 2014, the above referenced ratios ceased to be the regulatory indicators of liquidity required to be maintained by commercial banks. As of the Latest Practicable Date, these incidences of non-compliance had not resulted in any penalty against us or any material adverse effect on us. However, we cannot assure you that we will be able to meet all the applicable regulatory requirements and guidelines, or comply with all the applicable regulations at all times, or that we will not be subject to sanctions, fines or other penalties in the future as a result of non-compliance. Any failure to comply with applicable requirements, guidelines or regulations could have a material adverse effect on our financial condition and results of operation, as well as damage our reputation and our ability to grow our business.

We may not be able to detect money laundering and other illegal or improper activities on a timely basis, or at all, which could expose us to reputational damages and additional legal or regulatory liability risks.

We are required to comply with applicable PRC anti-money laundering and anti-terrorism laws and regulations. These laws and regulations require us to adopt and enforce "know-your-customer" policies and procedures and to report suspicious and large transactions to the relevant regulatory authorities. In light of the complexity of money-laundering activities and other illegal or improper activities, such policies and procedures may not completely eliminate the possibility that we may be utilized by other parties to get involved in money laundering and other illegal or improper activities. To the extent that we fail to fully comply with such laws and regulations, the relevant government authorities may impose fines and other penalties on us. In addition, our business and reputation could deteriorate if customers manipulate their transactions with us for money laundering or other illegal or improper purposes. See "Risk Management—Legal and Compliance Risk Management—Anti-money Laundering" and "Supervision and Regulation—Anti-money Laundering Regulation".

We are subject to risks associated with off-balance sheet commitments.

We provide certain off-balance sheet commitments to our customers in the ordinary course of business, consisting primarily of acceptances, guarantees, letters of credit and loan commitments. Such arrangements are not reflected on our balance sheet but constitute contingent assets or contingent liabilities. As of June 30, 2015, our off-balance sheet commitments totaled RMB25,904 million. See "Financial Information—Off-balance Sheet Commitments". We are subject to credit risks associated with these off-balance sheet commitments and are required to provide funds when our customers are unable to perform their obligations. If we are unable to recover payment from our customer, our financial condition and results of operation may be materially and adversely affected.

We have certain Shareholders that we have been unable to contact and register, which may lead to potential disputes.

As of June 30, 2015, among our 2,272 existing Shareholders, we have not been able to confirm certain of our Shareholders' identities because we are unable to contact them or for other reasons. Such unidentifiable Shareholders include 24 corporate shareholders and 84 individual shareholders. The Shares held by such Shareholders represented an aggregate of approximately 0.17% of our total issued share capital.

We cannot assure you that we will successfully contact and accurately record all holders of our Shares or all persons who are entitled to our Shares. We have entrusted the Shares held by all of our existing Shareholders, including such unidentifiable Shareholders, to the Equity Trust Center of Joint Stock Enterprises in Qingdao Co., Ltd. (青島市股份制企業股權託管中心有限公司). With respect to cash dividends payable in respect of the Shares with uncertain entitlements, we have kept such dividends in a special account created for this purpose, which will be released upon the determination of entitlements of the Shares. King & Wood Mallesons, our PRC legal advisor, is of the view that the existence of the aforementioned unidentifiable Shareholders is not expected to have any material adverse effect on our share capital, corporate governance and business operations. However, we cannot guarantee that there will not be any disputes regarding equity interests raised by Shareholders, such as disputes over the dilution of their shareholding, including the Shares held by you. Any of such disputes or objections may result in negative publicity or reputational damage to us.

Issues related to land use right and building ownership may adversely affect our ability to occupy and use certain properties owned by us and/or leased from third parties.

As of the Latest Practicable Date, we owned or occupied 46 properties with an aggregate GFA of approximately 51,625 square meters, in China. We have not obtained the land use right certificate and/or building ownership certificate for two properties with an aggregate GFA of approximately 2,166 square meters, accounting for approximately 4.2% of the aggregate GFA of our owned properties. We are currently in the process of applying for land use right certificates and building ownership certificates for these properties. However, we may not be able to obtain these title certificates, therefore, our ownership rights may be adversely affected in respect of these properties. If we were forced to relocate any of the operations we conduct on the affected properties, we may incur additional costs as a result of such relocation.

As of the Latest Practicable Date, we leased 91 properties with an aggregate GFA of approximately 78,002 square meters, which we mainly use as business premises. Among these properties, 18 properties with an aggregate GFA of approximately 10,216 square meters were leased from lessors who were not able to provide the title certificates. As a result, the validity of such leases may be subject to legal challenge. In addition, we cannot assure you that we would be able to renew such leases on terms acceptable to us upon their expiration or at all. If any of our leases is terminated as a result of challenges by third parties or if we fail to renew them upon expiration, we may be forced to relocate affected branches and sub-branches and incur additional costs associated therewith, and our business, financial condition and results of operation may be adversely affected.

For details of our properties, see "Business—Properties".

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

We are involved in legal and other disputes from time to time for a variety of reasons, which are generally the loan disputes or claims arising out of our banking business. See "Business—Legal and Regulatory—Legal Proceedings"**.** We cannot guarantee that the outcome in any of the litigation in which we are involved would be favorable to us and any future legal disputes we may confront could result in damage to our reputation, additional operational costs and a diversion of resources and management's attention from our business operations.

RISKS RELATING TO THE PRC BANKING INDUSTRY

We face increasingly intensive competition in China's banking industry.

The banking industry in China is becoming increasingly competitive. We face competition with PRC or foreign commercial banks in all of our principal lines of business in the locations where we have operations. We principally compete with commercial banks operating in Shandong Province, including large commercial banks, joint stock commercial banks and other commercial banks. On July 1, 2013, the General Office of the State Council issued the Guidance Letter Regarding Financial Support for Promoting Economic Restructuring and Transformation (《國務院辦公廳關於金融支持經濟結構調整和轉型升級的指導意見》), or the Guidance Letter. The Guidance Letter, among other things, encourages investment by private sector capital in financial institutions and the establishment of privately-owned banks. The Guidance Letter provides a policy direction to the increasing involvement by private sector capital in the financial industry in China. We may therefore face competition from privately-owned banks in the future. Due to the market liberalization by the PRC government, competition in the PRC banking industry will be further intensified.

We compete with our competitors for substantially the same customers on loans, deposits and fee- and commission-based products and services. Such competition may materially and adversely affect our business and future prospects by, for example, reducing our market share in our principal products and services, reducing our fee and commission income, affecting the growth of our loan or deposit portfolios and their related products and services, and increasing competition for soliciting senior management talents and qualified professional personnel.

In addition to competition from other banks and financial institutions, we also face competition from other forms of investment alternatives in China. In recent years, financial disintermediation, which involves investors' moving funds out of commercial banks and other financial institutions, to direct investments, has increased in China due to the availability of new financial products, the further development of the capital markets, the diversification of customer demand and other factors. Our deposit customers may move their funds deposited with us to invest in stock, bonds and wealth management products, which may result in a decrease in our customer deposits, the most important source of funds available to us for our lending business, further impacting our net interest income. In addition, due to the development of the capital markets, we may face competition from direct corporate financing, such as the issuance of debt or equity securities in the domestic and international capital markets. If a substantial number of our customers choose alternative ways of financing to meet their funding needs, this may adversely affect our interest income. A decrease in the financing demand of our corporate customers could materially and adversely affect our business, financial condition and results of operation.

Furthermore, China's traditional banking institutions are also facing new challenges from innovations in financial products and technology, such as online wealth management products, third party online payment platforms and Internet financing service platforms. Third-party online payments amounted to RMB7,400 billion in 2014, accounting for nearly 60% of all online payments. Similar to other commercial banks, we also face competition from other types of Internet finance, such as P2P lending and crowdfunding. We cannot assure you that we will successfully meet the challenges from such Internet finance companies and, in the event that we were unable to effectively respond to the changes in the competition environment of the PRC banking industry, our business, financial condition and results of operation could be materially and adversely affected.

The PRC banking industry is highly regulated, and we are susceptible to changes in regulation and government policies.

The PRC banking industry is highly regulated and our business could be directly affected by changes in the policies, laws and regulations relating to the PRC banking industry, such as those affecting the specific lines of business in which we operate, or the specific businesses for which we can charge fees, as well as changes in other governmental policies. We are subject to various regulatory requirements and guidelines set forth by the PRC regulatory authorities, which include but are not limited to MOF, NAO, PBoC, SAT, CBRC, CSRC, SAFE and their respective local branches, particularly in Qingdao and Shandong Province. Some of such regulatory authorities conduct periodic and *ad hoc* inspections, examinations and inquiries on our business operations and compliance with the laws, regulations and guidelines, and have the authority to impose sanctions, penalties or remediation actions. These laws, regulations and guidelines impose regulatory requirements on, among others, banking products and services, market entry, opening of new branches or institutions, tax and accounting policy and pricing. CBRC, as the primary banking industry regulator, has promulgated a series of banking regulations and guidelines aiming at improving the operations and risk management of Chinese commercial banks.

Many of the policies, laws and regulations governing the banking industry or the interpretation thereof may change in the future, and we may not be able to adapt to such changes on a timely basis or at all. Failure to comply with new policies, laws and regulations may result in fines or restrictions on our business, which could materially and adversely affect our business, financial condition and results of operation.

The rapid growth of the banking industry in China may not be sustainable.

The PRC banking industry has experienced rapid growth along with China's economic development. Banks have historically been, and are likely to remain, the principal domestic financing channel for corporates and the primary choice for savings. We expect the banking industry in the PRC to maintain its growth as a result of the continued growth in the PRC economy and increases in household income, among other factors.

Notwithstanding the significant growth in the banking industry in China, it is uncertain whether the banking industry in China can sustain the current rates of growth. A slowdown in the growth of the PRC economy, other unfavorable macroeconomic developments and trends in China and other parts of the world could materially and adversely affect the banking industry in China. Due to the newly-accumulated risks caused by overcapacity, local government debts and overall economic slowdown, we cannot assure you that the banking industry in the PRC is free from systemic risks. The recent slowdown in China's economic growth has led to a rise in non-performing loans of the banking industry. In the event that we cannot adapt to such changes, our business, financial condition and results of operation could be materially and adversely affected.

Change in the PRC interbank market liquidity and volatility in interest rates could significantly increase our borrowing cost and materially and adversely affect our liquidity as well as our financial condition.

We utilize short-term funding in the interbank market to satisfy some of our liquidity needs, and any significant changes in the liquidity and interest rate in the PRC interbank market could have an impact on our financing costs. A market rate system based on SHIBOR has been developed for the PRC interbank market. However, due to the relatively short history of the PRC interbank market, there may be significant volatility in market interest rates. We cannot assure you that SHIBOR interest rates will not experience irregular fluctuations or will return to the normal range in the short term after irregular fluctuations in such rates in the future. SHIBOR reflects changes in the interest rates, which may materially affect our cost of borrowing of short-term funds in the interbank market. Any significant volatility in interest rates on the interbank market may have a material and adverse effect on our cost of borrowing short-term funds and our liquidity.

In addition, severe volatility in market interest rates may also have a significant impact on the value of our assets. For example, a significant increase in market interest rates may lead to a significant decrease in the fair value of our fixed income debt securities, which will have a material and adverse effect on our financial condition and results of operation.

Further development of interest rate liberalization may materially and adversely affect our results of operation.

Similar to most PRC commercial banks, our results of operation depend, to a large extent, on our net interest income, which accounted for more than 80% of our operating income for the years ended December 31, 2012, 2013 and 2014 and for the six months ended June 30, 2015.

Our net interest income is sensitive to adjustments in the benchmark interest rates set by PBoC. In recent years, PBoC has adjusted the benchmark interest rates several times. See “Supervision and Regulation—Pricing of Products and Services—Interest Rates for Loans and Deposits”. Adjustments by PBoC to the benchmark interest rates on loans or deposits or changes in market interest rates may affect our financial condition and results of operation in different ways. For example, changes in the PBoC benchmark interest rates could affect the average yield on our interest-earning assets to a different extent than the average cost on our interest-bearing liabilities and, therefore, may narrow our net interest margin. This would lead to a decrease in our net interest income, which in turn may materially and adversely affect our results of operation and financial condition.

Interest rates in China have been gradually liberalized in recent years. Effective June 8, 2012, PBoC allowed financial institutions to set interest rates on RMB-denominated deposits at up to 110% of the PBoC benchmark rates. Effective July 20, 2013, PBoC liberalized the floor rates for RMB-denominated loans (excluding interest rates on residential mortgage loans) and allowed financial institutions to set interest rates based on commercial considerations. Effective November 22, 2014, PBoC allowed financial institutions to set interest rates on RMB-denominated deposits at up to 120% of the PBoC benchmark rates, which was raised to 130% and then 150% of the PBoC benchmark rates, effective March 1 and May 11, 2015, respectively. Effective August 26, 2015, PBoC removed the cap on the interest rates on RMB-denominated time deposits with tenors of longer than one year while the cap on the interest rates on RMB-denominated demand deposits and time deposits with tenors up to one year remain unchanged. Furthermore, effective October 24, 2015, PBoC removed the cap on interest rates on deposits and allowed commercial banks in China to set interest rates on deposits based on commercial considerations. Interest rate liberalization may intensify competition in the PRC banking industry as China's commercial banks seek to make loans and take deposits with more attractive interest rates, which could narrow the net interest margin of Chinese commercial banks, thereby materially and adversely affecting our results of operation. We cannot assure you that we will be able to promptly diversify our businesses, adjust the mix of our assets and liabilities and change our pricing to effectively respond to further liberalization of interest rates.

The Deposit Insurance Regulation came into effect on May 1, 2015. The Deposit Insurance Regulation insures each depositor of a failed bank in an amount up to RMB500,000. Banks are required to pay premiums for the deposit insurance program, which will increase our operating costs and may therefore adversely affect our financial condition and results of operation. It is still uncertain whether the Deposit Insurance Regulation will have a positive or negative impact on the banking industry in China.

We also conduct trading and investment activities involving certain financial instruments. Our income generated from these activities is subject to volatility caused by, among other things, changes in interest rates and foreign exchange rates. For example, increases in interest rates generally cause the value of our fixed income securities portfolio to drop, which may materially and adversely affect our results of operation and financial condition. In addition, the derivatives market in the PRC is still in the early stages of development. As a result, we may not be able to effectively hedge such market risks.

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

Although national credit information databases developed by PBoC have been put into use, national credit information databases in China are generally under-developed, and such databases are not able to provide complete credit information on certain credit applicants. Without complete, accurate and reliable information and until the full implementation and effective operation of comprehensive national credit databases with respect to corporate and individual borrowers, we have to rely on other publicly available information and our internal resources, which may not be effective to assess the credit risk associated with a particular customer. Moreover, customary loan contracts in China may not contain the same types of financial and other covenants as other countries or regions, which would not allow us to effectively monitor changes to the credit standing of our customers in a timely manner. As a result, our ability to effectively manage our credit risk may be limited, which could materially and adversely affect our business, financial condition and results of operation.

Investments in commercial banks in China are subject to a number of restrictions that may adversely affect the value of your investment.

Investments in commercial banks in China are subject to a number of restrictions. For example, prior approval from the regulatory authorities for the PRC banking industry is required for any person or entity to hold 5% or more of the total capital or total shares of a commercial bank in China, unless otherwise required by the approval authorities. If a shareholder of a commercial bank in China increases its shareholding above the 5% threshold without obtaining prior approval from the regulatory authorities for the PRC banking industry, such shareholder may be subject to sanctions by the regulatory authorities for the PRC banking industry, which includes correction of such misconduct, confiscation of illegal gains or fines. In addition, under the PRC Company Law, we may not extend any loans that use our Shares as collateral. Furthermore, pursuant to the Corporate Governance Guidelines and our Articles of Association, a Shareholder must notify our Board of Directors before pledging our Shares as collateral for itself or others. In addition, Shareholders who have outstanding loans from us exceeding the audited net value of our Shares held by them at the end of the previous financial year are not permitted to pledge our Shares. Our Shareholders (especially the major shareholders) and our Directors designated by them are restricted from voting in Shareholders' general meetings and Board meetings, respectively, if such Shareholders fail to repay outstanding borrowings when due. Changes in shareholding restrictions imposed by the PRC government or as provided for in our Articles of Association in the future may materially and adversely affect the value of your investment.

IFRS 9 and its amendments as well as their application may require us to change our provisioning practice for impairment on financial assets.

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

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

We classify our loans using a five-category loan risk classification system in accordance with the guidelines set forth by CBRC. The five categories are normal, special mention, substandard, doubtful and loss. In making relevant assessments, we determine and recognize provisions by using the concept of impairment under IAS 39. For single substantial corporate loans classified as substandard or lower categories, we make assessment on an individual basis. For single non-performing corporate loans which are not material, performing corporate loans and for all of our personal loans, we make a collective assessment based on our historical loss experience in similar portfolios and on current economic conditions. Our loan classification and provisioning policies may be different in certain respects from those for banks incorporated in certain other countries or regions. As a result, our loan classification as well as our allowance for impairment losses, as determined under our loan classification and provisioning policies, may differ from those reported were we incorporated in those countries or regions.

The applicable PRC regulations impose certain limitations on the products in which we may invest and our ability to seek higher investment returns and diversify our investment portfolio is limited.

Investment by commercial banks in China is subject a number of restrictions. The investment assets of PRC commercial banks traditionally consist primarily of debt securities issued by MOF, PBoC, PRC policy banks, PRC commercial banks and corporates. In recent years, additional investment products have been introduced to the market, such as trust fund plans, asset management plans, wealth management products issued by financial institutions, investment funds, asset-backed securities, beneficiary rights in margin financing and beneficiary certificates, as a result of changes to the regulatory regimes and market conditions. However, investments in equity products by commercial banks are still subject to strict restrictions. Restrictions on the ability to diversify the investment portfolio of commercial banks in China (including us) may limit our ability to seek optimal returns.

RISKS RELATING TO THE PRC

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

All of our businesses, assets, operations and revenues are located in or derived from our operations in the PRC and, as a result, our business, financial condition and results of operation are subject, to a significant degree, to the economic, political, social and regulatory environment in the PRC. The PRC government regulates the economy and the industries by imposing industrial policies and regulate the PRC's macroeconomy through the fiscal and monetary policies.

Our performance has been and will continue to be affected by China's economy, which in turn is influenced by the global economy. The uncertainties relating to the global economy as well as the political environment in various regions of the world will continue to impact China's economic growth.

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

The legal protections available to you under the PRC legal system may be limited.

We are incorporated under the laws of the PRC. The PRC legal system is based on written statutes. Prior court decisions may be adduced for reference but have limited precedential value. Since the late 1970s, the PRC government has promulgated laws and regulations dealing with such economic matters as the issuance and trading of securities, shareholders' rights, foreign investment, corporate organization and governance, commerce, taxation and trade, with a view towards developing a comprehensive system of commercial law. However, as these laws and regulations are relatively new and the development of products, investment instruments and environment in the PRC banking industry continue to evolve, the effect of these laws and regulations on the rights and obligations of the parties involved may involve uncertainty. As a result, the legal protections available to you under the PRC legal system may be limited.

Our Articles of Association provide that, apart from disputes over the recognition of Shareholders or register of Shareholders, disputes between holders of H Shares and us, our Directors, Supervisors or senior management personnel or other Shareholders arising out of our Articles of Association or any rights or obligations conferred or imposed thereupon by the PRC Company Law and related laws and administrative regulations concerning our affairs are to be resolved through arbitration by the China International Economic and Trade Arbitration Commission ("CIETAC") or the Hong Kong International Arbitration Center. Awards made by PRC arbitral authorities (including CIETAC) recognized under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong subject to provisions of the Arbitration Ordinance of Hong Kong. Hong Kong arbitration awards are also enforceable in the PRC, subject to the satisfaction of certain PRC legal requirements. However, we cannot assure you that any action brought in the PRC by holders of H Shares to enforce a Hong Kong arbitral award made in favor of holders of H shares would succeed.

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

We are a joint stock company incorporated under the laws of the PRC with limited liability, and substantially all of our assets are located in the PRC. In addition, a majority of our Directors, Supervisors and all of our senior management personnel reside within the PRC, and substantially all their assets are located within the PRC. As a result, it may not be possible to effect service of process within the United States or elsewhere outside the PRC upon us or most of our Directors, Supervisors and senior management personnel, including with respect to matters arising under the U.S. federal securities laws or applicable state securities laws. Furthermore, the PRC does not have treaties providing for the reciprocal enforcement of judgments of courts with the United States, the United Kingdom, Japan or many other countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, recognition and enforcement in the PRC or Hong Kong of judgments of a court obtained in the United States and any of the other jurisdictions mentioned above may be difficult or impossible.

On July 14, 2006, the Supreme People's Court of the PRC and the government of the Hong Kong Special Administrative Region entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by Courts of the Mainland and the Hong Kong Special Administration Region Pursuant to Choice of Court Agreements between Parties Concerned (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) (the "Arrangement"). Under the Arrangement, where any designated PRC court or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil or commercial case pursuant to a choice of court agreement in writing, any party concerned may apply to the relevant PRC court or Hong Kong court for recognition and enforcement of the judgment. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly selected as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in dispute have not agreed to enter into a choice of court agreement in writing. In addition, the Arrangement has expressly provided for "enforceable final judgement", "specific legal relationship" and "written form". A final judgement that does not comply with the Arrangement may not be recognized and enforced in a PRC court and we cannot assure you that a final judgement that complies with the Arrangement can be recognized and enforced in a PRC court.

We are subject to PRC government controls on currency conversion, and the fluctuation of the RMB exchange rate may materially and adversely affect our business and our ability to pay dividends to holders of H Shares.

Substantially all of our revenue is denominated in RMB, which is currently not a fully freely convertible currency. A portion of our revenues must be converted into other currencies in order to meet our foreign currency obligations. For example, we need to obtain foreign currency to make payments of declared dividends, if any, on our H Shares.

Under China's existing laws and regulations on foreign exchange, following the completion of the Global Offering, we will be able to make dividend payments in foreign currencies by complying with certain procedural requirements and without prior approval from SAFE. However, in the future, the PRC government may, at its discretion, take measures to restrict access to foreign currencies for capital account and current account transactions under certain circumstances. As a result, we may not be able to pay dividends in foreign currencies to holders of our H Shares.

The value of the RMB against the U.S. dollar and other currencies fluctuates from time to time and is affected by a number of factors, such as changes in China's and international political and economic conditions and the fiscal and foreign exchange policies prescribed by the PRC government. On July 21, 2005, the PRC government adopted a more flexible managed floating exchange rate system to allow the value of the RMB to fluctuate within a regulated band that is based on market supply and demand and with reference to a basket of currencies. The PRC government has since introduced further changes to the exchange rate system in 2012 and 2014. On August 11, 2015, PBoC announced to improve the central parity quotations of RMB against the U.S. dollar by authorizing market-makers to provide central parity quotations to the China Foreign Exchange Trading Center with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign exchange as well as changes in major international currency exchange rates. On the same day, the central parity of RMB against the U.S. dollar depreciated by nearly 2% as compared to August 10, 2015, and further depreciated by nearly 1.6% on August 12, 2015 as compared to August 11, 2015. With the development of foreign exchange market and progress towards interest rate liberalization and RMB internationalization, the PRC government may in the future announce further changes to the exchange rate system.

We believe our current exposure to risk relating to fluctuations in exchange rates is limited. As of June 30, 2015, 2.4% of our assets and 2.5% of our liabilities were denominated in foreign currencies. However, our foreign currency business may expand and, therefore, any appreciation of the RMB against the U.S. dollar or any other foreign currencies may result in a decrease in the value of our foreign currency-denominated assets. Conversely, any devaluation of the RMB may adversely affect the value of, and any dividends payable on, our H Shares in foreign currencies. As the instruments available for us to hedge our exchange rate risk at reasonable cost are limited, we cannot assure you that we will be able to fully hedge our exchange rate risk exposure relating to our foreign currency-dominated assets. Any appreciation of the RMB against the U.S. dollar or any other foreign currencies may materially and adversely affect the financial conditions of certain of our customers, particularly those deriving substantial income from export related businesses. As a result, their ability to perform their obligations to repay their debt to us may be adversely impacted. Furthermore, we are also currently required to obtain approval from SAFE before converting large amounts of foreign currencies into RMB. All of these factors could adversely affect our financial condition and results of operation.

Holders of H Shares may be subject to PRC taxation on dividends paid by us and gains realized through their disposal of our H Shares.

Under applicable PRC tax laws, regulations and statutory documents, non-PRC resident individuals and enterprises are subject to different tax obligations with respect to dividends received from us or gains realized upon the sale or other disposition of our H Shares. Non-PRC domestic resident individuals are generally subject to PRC individual income tax under the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》) at a rate of 20% unless specifically exempted by the tax authority of the State Council or reduced or eliminated by an applicable tax treaty. We are required to withhold such tax from dividend payments. According to relevant applicable regulations, generally, domestic non-foreign-invested enterprises issuing shares in Hong Kong may, when distributing dividends, withhold individual income tax at the rate of 10%. There remains uncertainty as to whether gains realized upon disposal of H Shares by non-PRC domestic resident individuals are subject to PRC individual income tax.

Non-PRC resident enterprises that do not have establishments or premises in the PRC, or have establishments or premises in the PRC but their income is not related to such establishments or premises are subject to PRC enterprise income tax at the rate of 10% on dividends received from PRC companies and gains realized upon disposal of equity interests in the PRC companies pursuant to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) and other applicable PRC tax regulations and statutory documents, which can be reduced or eliminated under special arrangements or applicable treaties between China and the jurisdiction where the non-resident enterprise resides. As of the Latest Practicable Date, there are no specific rules about how to levy tax on gains realized by non-resident enterprise holders of H Shares through the sale or transfer by other means of H Shares.

There remains uncertainty as to how the PRC tax laws, regulations and statutory documents are interpreted and implemented by the PRC tax authorities. PRC tax laws, regulations and statutory documents may also change. If there are any unfavorable changes to applicable tax laws or interpretations or application with respect to such laws, the value of your investment in our H Shares may be materially affected.

See Appendix VI—"Taxation and Foreign Exchange" to this prospectus.

Payment of dividends is subject to restrictions under PRC laws.

Under PRC law and our Articles of Association, dividends may be paid only out of distributable profits. Our profit distribution plan is subject to approval by a Shareholders' general meeting. In addition to the financial statements prepared in accordance with PRC accounting standards and regulations, we will also prepare financial statements in accordance with IFRS. Our profit after tax available for distribution for a particular financial year shall be the lower of profit after tax as shown in the financial statements prepared under either of the two accounting standards mentioned above. We are prohibited from paying dividends for a given year out of our profit after tax to our Shareholders in proportion to their respective shareholdings before making up any accumulated losses of previous years and making appropriations to the statutory surplus reserve and general reserve as well as discretionary reserve as approved by our Shareholders' meeting. As a result, we may not have distributable profits to make dividend distributions to our Shareholders, including in respect of periods where we have recorded an accounting profit. Any distributable profits not distributed in a given year may be retained and available for distribution in subsequent years. In addition, CBRC has discretion to restrict dividend payments and other distributions by any bank that has failed to meet statutory capital adequacy ratio requirements or that has violated certain other PRC banking regulations. For details, see "Supervision and Regulation—Supervision over Capital Adequacy—CBRC's Supervision of Capital Adequacy".

Natural disasters, epidemics, acts of war or terrorism or other factors beyond our control may have a material adverse effect on our business operations, financial condition and results of operation.

Natural disasters, epidemics, acts of war or terrorism or other factors beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the regions where we conduct our business. These regions may be under the threat of flood, earthquake, sandstorm, snowstorm, fire or drought, power shortages or failures, or are susceptible to epidemics, potential wars or terrorist attacks. Serious natural disasters may result in a tremendous loss of lives and injury and destruction of assets and disrupt our business and operations. Severe communicable disease outbreaks could result in a widespread health crisis that could materially and adversely affect the economy and financial markets. Acts of war or terrorism may also injure our employees, cause loss of lives, disrupt our business network and destroy our markets. Any of these factors and other factors beyond our control could have an adverse effect on the overall business sentiment and environment, cause uncertainties in the regions where we conduct business, cause our business to suffer in ways that we cannot predict and materially and adversely impact our business, financial condition and results of operation.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our H Shares, an active trading market for our H Shares may not develop, and their trading price may fluctuate significantly.

Prior to the completion of the Global Offering, no public market has existed for our H Shares. The initial Offer Price range to the public for our H Shares is the result of negotiations between us on behalf of ourselves and the Selling Shareholders and the Joint Global Coordinators on behalf of the Underwriters, and the Offer Price may differ significantly from the market price for our H Shares following the Global Offering. There can be no assurance that an active trading market for our H Shares will develop following the Global Offering or, if it does develop, that it will be sustained or that the market price for our H Shares will not decline below the initial Offer Price.

The trading volume and market price of our H Shares may be volatile, which could result in substantial losses for investors who purchase our H Shares in the Global Offering.

The price and trading volume of our H Shares may be highly volatile. Factors, some of which are beyond our control, such as variations in our revenue, earnings and cash flow, changes in our pricing policy as a result of competition, the emergence of new technologies, strategic alliances or acquisitions, the addition or departure of key personnel, changes in ratings by financial analysts and credit rating agencies, litigation or fluctuations in the market prices and demand for our products or services could cause large and sudden changes in the volume and price at which our H Shares will trade. In addition, the Hong Kong Stock Exchange and other securities markets have, from time to time, experienced significant price and volume fluctuations that are not related to the operating performance of any particular company. These fluctuations may also materially and adversely affect the market price of our H Shares.

Future offerings, sales, perceived sales or conversion of substantial amounts of Shares in the public market (including any future conversion of unlisted Shares into H Shares) could materially and adversely affect the prevailing market price of our H Shares and our ability to raise additional capital in the future, or could result in dilution in shareholding of our H Shareholders.

The market price of our H Shares could decline as a result of future offerings or sales of substantial amounts of our Shares or other securities relating to our Shares in the public market, or the issuance of new H Shares or other securities relating to our Shares or the perception that such sales or issuances may occur. Future sales, or perceived sales, of substantial amounts of our securities, including any future offerings, could materially and adversely affect the prevailing market price of our

H Shares and our ability to raise capital in the future at a time and at a price which we deem appropriate. In addition, our Shareholders would experience a dilution in their holdings upon the issuance of additional securities for any purpose. If additional funds were raised through our issuance of new equity or equity-linked securities other than on a pro-rata basis to existing Shareholders, the ownership percentage of such Shareholders could be reduced and such new securities might confer rights and privileges that take priority over those conferred by the H Shares.

Upon the completion of the Global Offering and the conversion of Unlisted Foreign Shares held by our existing foreign Shareholders, we will have two classes of ordinary shares, H Shares and Domestic Shares. All of our Domestic Shares are unlisted Shares which are not listed or traded on any stock exchange. Assuming the Over-allotment Option is not exercised, there will be 1,711,136,980 H Shares representing 42.66% of our enlarged share capital and 2,300,395,769 Domestic Shares representing 57.34% of our enlarged share capital. Our unlisted Shares may be converted into H Shares, and such converted H Shares may be listed or traded on an overseas stock exchange, provided that prior to the conversion and trading of such converted Shares, any requisite internal approval processes shall have been duly completed and the approval from the relevant regulatory authorities, including CSRC, shall have been obtained in accordance with the regulations of the State Council's securities regulatory authorities as well as regulations, requirements and procedures of relevant overseas stock exchanges. The listing of such converted Shares on the Hong Kong Stock Exchange will also require the approval by the Hong Kong Stock Exchange. No class shareholder vote is required for the conversion of such Shares and the listing and trading of the converted Shares on an overseas stock exchange. Future sales, or perceived sales, of the converted Shares may adversely affect the trading price of H Shares.

Because the Offer Price of our H Shares is higher than our net tangible book value per Share, purchasers of our H Shares in the Global Offering will experience immediate dilution upon such purchase.

The Offer Price of our H Shares is higher than our net tangible book value per Share of the outstanding Shares issued to our existing Shareholders as of June 30, 2015. Therefore, purchasers of our H Shares in the Global Offering will experience an immediate dilution in pro forma net tangible book value and our existing Shareholders will receive an increase in the pro forma adjusted consolidated net tangible asset value per Share of their Shares. In addition, holders of our H Shares may experience a further dilution of their shareholding percentage if the Joint Global Coordinators on behalf of the International Underwriters exercise the Over-allotment Option or if we obtain additional capital in the future through equity offerings.

Dividends distributed in the past may not be indicative of our dividend policy in the future.

We declared and distributed cash dividends of RMB179 million, RMB204 million and RMB778 million with respect to the financial year of 2012, 2013 and 2014, respectively. Dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee when, if and in what form or size dividends will be paid in the future. The determination of whether to pay a dividend and in what amount is based on our results of operation, cash flows, financial condition, capital adequacy ratios, future business prospects, statutory and regulatory restrictions on the payment of dividends by us and other factors that our Board of Directors deems relevant. We may not have sufficient or any profits for dividend distributions in the future, even if our financial statements indicate that our operations have been profitable. See "Financial Information—Dividend Policy".

We cannot assure you of the accuracy of facts, forecasts and statistics derived from official government publications contained in this prospectus with respect to China, its economy or its banking industry.

Facts, forecasts and statistics in this prospectus relating to the PRC, the PRC economy and the PRC and global banking industries, including our market share information, are derived from various governmental sources and information published by various government authorities and departments, such as PBoC, CBRC, the International Monetary Fund, the Statistics Bureaus of Shandong Province and other provinces, or other public sources. We believe that these sources of information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers or their respective directors or any other person involved in the Global Offering, and no representation is given as to its accuracy. In addition, these facts, forecasts and statistics may not be consistent with information available from other sources, and may not be complete or up to date. As a result, you should not place undue reliance on such information.

You should rely only on this prospectus, and not place any reliance on any information contained in press articles or other media, in making your investment decision.

We have not authorized anyone to provide you with information that is not contained in, or is different from what is contained in, this prospectus. Prior or subsequent to the publication of this prospectus, there has been press and media coverage regarding us and the Global Offering, in addition to marketing materials published by us in compliance with the Listing Rules. We have not authorized any such press and media reports, and the financial information, financial projections, valuations and other information purportedly about us contained in such unauthorized press and media coverage may be untrue and may not reflect what is disclosed in this prospectus. We make no representation as to the appropriateness, accuracy, completeness, or reliability of any such information or publication, and accordingly do not accept any responsibility for any such press or media coverage or the inaccuracy or incompleteness of any such information. To the extent that any such information appearing in the press and media is inconsistent or conflicts with the information contained in this prospectus, we disclaim it, and accordingly you should not rely on any such information. In making your decision as to whether to purchase our H Shares, you should rely only on the information included in this prospectus and the Application Forms.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to us. The Directors, having made all reasonable inquiries, confirm that, to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

CSRC AND CBRC APPROVALS

We obtained approvals from CBRC Qingdao Office and CSRC for the Global Offering and the application to list our H Shares on the Hong Kong Stock Exchange, on July 2, 2015 and September 25, 2015, respectively. In granting such approvals, neither CBRC Qingdao Office nor CSRC accepts any responsibility for our financial soundness, or for the accuracy of any of the statements made or opinions expressed in this prospectus or in the Application Forms.

UNDERWRITING AND INFORMATION ON THE GLOBAL OFFERING

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

The listing of our H Shares on the Hong Kong Stock Exchange is sponsored by the Joint Sponsors. The Global Offering is managed by the Joint Global Coordinators. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement. The International Underwriting Agreement relating to the International Offering is expected to be entered into on or about the Price Determination Date, subject to determination of the pricing of the Shares. For further details about the Underwriters and the Underwriting Agreements, see "Underwriting".

The H Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by our Bank, the Selling Shareholders, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisors or any other party involved in the Global Offering.

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

DETERMINATION OF THE OFFER PRICE

The H Shares are being offered at the Offer Price which will be determined by the Joint Global Coordinators (on behalf of the Underwriters) and us (on behalf of ourselves and the Selling Shareholders) on or around Wednesday, November 25, 2015 or such later date as may be agreed upon between the Joint Global Coordinators (on behalf of the Underwriters) and us (on behalf of ourselves and the Selling Shareholders), and in any event no later than Wednesday, December 2, 2015. If the Joint Global Coordinators (on behalf of the Underwriters) and us (on behalf of ourselves and the Selling Shareholders) are unable to reach an agreement on the Offer Price on such date, the Global Offering will not proceed and will lapse.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

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

No action has been taken to permit an offering of the Offer Shares other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, and without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation for subscription in any jurisdiction or in any circumstances in which such an offer or invitation for subscription is not authorized or to any person to whom it is unlawful to make such an offer or invitation for subscription.

The distribution of this prospectus and/or the related Application Forms and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. The Offer Shares have not been offered and sold, and will not be offered or sold, directly or indirectly, in the PRC.

Each of ISP and Rothschilds has undertaken that they will not, and will procure their respective associates not to, apply for or subscribe for any H Shares under the Global Offering. We have also undertaken that ISP and Rothschilds will not subscribe for any H Shares under the Global Offering, and the number of Shares to be issued by us to any one of the foreign Shareholders will not exceed 20% of our total Shares after the completion of the Global Offering, respectively.

SELLING SHAREHOLDERS

As our state-owned shareholders, the Selling Shareholders are required to reduce their state-owned shareholding in our Bank upon the Global Offering in accordance with the requirements under the laws and regulations of reducing state-owned shareholdings of the PRC. The details of the Selling Shareholders are set out as follows.

	Name	Number of Sale Shares (assuming the Over-allotment Option is not exercised)	Number of Sale Shares (assuming the Over-allotment Option is exercised in full)
1	Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. (青島青島華通國有資本運營（集團）有限責任公司) ("Huatong Group") (Note 1)	41,973,394	41,973,394
2	Qingdao Conson	25,961,337	36,151,545
3	Qingdao Enterprise Development & Investment Co., Ltd. (青島市企業發展投資有限公司)	7,607,636	8,748,781
4	Guosen Securities Co., Ltd. (國信證券股份有限公司)	7,088,196	8,151,426
5	Qingdao Economic Development Investment Co., Ltd. (青島市經濟開發投資有限責任公司)	5,204,430	5,985,095
6	Qingdao Development and Investment Co., Ltd. (青島開發投資有限公司)	668,605	768,896
7	Etsong Tobacco (Group) Corporation Ltd. (頤中煙草（集團）有限公司)	467,230	537,315
8	Qingdao Hainuo Investment and Development Co., Ltd. (青島海諾投資發展有限公司)	282,729	325,138
9	Qingdao Shibei District Venture Capital Co., Ltd. (青島市市北區創業投資有限公司)	218,272	251,013
10	Shangdong Foreign Economic Trade Services Company (山東省對外經濟貿易服務公司)	167,151	192,224
11	Chengfa Investment Group Co., Ltd. (城發投資集團有限公司)	141,594	162,833
12	Debt Service Centre of Finance Bureau in Shibei District, Qingdao (青島市市北區財政局債務服務中心)	58,076	66,788
13	Qingdao Public Housing Construction and Investment Company Limited (青島公共住房建設投資有限公司)	43,337	49,838
14	Labor Affair Centre in Shinan District, Qingdao (青島市市南區勞動事務代理中心)	38,204	43,934
15	Qingdao Chemical Research Institute (青島化工研究院)	27,641	31,787
16	China Jianyin Investment Limited (中國建銀投資有限責任公司)	25,887	29,770
17	Qingdao Huajin Dadi Clothing Company Limited (青島華金大地製衣有限公司)	13,709	15,765
18	Top Eight Community Service Centers in Shinan District, Qingdao (青島市市南區八大關社區服務中心)	12,572	14,458
	Total	**90,000,000**	**103,500,000**

Note 1: Huatong Group reduced part of its shares on behalf of Qingdao Conson.

CERTAIN MATTERS RELATING TO THE HONG KONG PUBLIC OFFERING

Application for Listing on the Hong Kong Stock Exchange

We have applied to the Listing Committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in, our H Shares including: (i) any H Shares which may be issued by our Bank pursuant to the Global Offering and upon the exercise of the Over-allotment Option; (ii) the H Shares converted from Domestic Shares and to be sold under the Global Offering; and (iii) H Shares converted from Unlisted Foreign Shares held by ISP and Rothschilds. Dealings in the H Shares on the Hong Kong Stock Exchange are expected to commence on Thursday, December 3, 2015.

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

H Share Register and Stamp Duty

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

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

Dividends Payable to Holders of H Shares

Unless determined otherwise by us, dividends payable in Hong Kong Dollars in respect of H Shares will be paid to Shareholders as recorded in our H Share register, and sent by ordinary post, at the H Share Shareholders' own risk, to the registered address of holders of H Shares.

Professional Tax Advice Recommended

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

Registration of Subscription, Purchase and Transfer of H Shares

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

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

(ii) agrees with us, each of our Shareholders, Directors, Supervisors and senior management, and we, acting for ourselves and for each of our Directors, Supervisors and senior management and each of our Shareholders agree, to submit all disagreements and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws, rules and regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any submission to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which arbitration shall be final and conclusive;

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

(iv) authorizes us to enter into a contract on his behalf with each of our Directors, Supervisors and senior management whereby such Directors, Supervisors and senior management undertake to observe and comply with their obligations to our Shareholders as stipulated in our Articles of Association.

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

Procedure for Application for Hong Kong Offer Shares

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

STRUCTURE OF THE GLOBAL OFFERING

For details of the structure of the Global Offering, including its conditions, see "Structure of the Global Offering".

OVER-ALLOTMENT AND STABILIZATION

For details of the arrangements relating to the Over-allotment Option and the stabilization, see "Underwriting".

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

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

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations of certain Renminbi amounts into U.S. dollars and Hong Kong Dollars at specified rates. No representation is made that the amounts denominated in one currency could actually be converted into another currency at the rates indicated or at all. Unless we indicate otherwise, (i) the translation of Renminbi into U.S. dollars was made at the rate of RMB6.3655 to US$1.00, the median rate set by PBoC for foreign exchange transactions prevailing on November 13, 2015; (ii) the translation of Hong Kong Dollars into U.S. dollars was made at the rate of HK$7.7509 to US$1.00, the noon buying rate in effect on November 13, 2015 as set forth in the H.10 weekly statistical release of the Federal Reserve Board; and (iii) the translation of Renminbi into Hong Kong Dollars was made at the rate of RMB0.82134 to HK$1.00, the median rate set by PBoC for foreign exchange transactions prevailing on November 13, 2015. Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

LANGUAGE

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

ROUNDING

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

WAIVER FROM HONG KONG FINANCIAL DISCLOSURE REQUIREMENTS

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

The Banking (Disclosure) Rules issued by HKMA replaced, inter alia, FD-1 and are applicable to relevant authorized institutions from the beginning of its first financial year commencing on or after January 1, 2007. As we are engaged in banking activities, pursuant to Rule 4.10 of the Listing Rules, the financial information to be disclosed in this prospectus should include information that is required to be disclosed in respect of those specific matters under the Banking (Disclosure) Rules.

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

Our position in relation to disclosures under the Banking (Disclosure) Rules

Section Number	Disclosure Requirements[1]	Reason for a Waiver in Relation to the Specific Disclosure	Proposal for Disclosure	Expected Timing for Full Compliance
47	Sector information	We maintain a breakdown of loans and advances to customers by industry sector as set out in the Classification and Codes of National Economic Industries in our loans system for the purpose of filing a return to CBRC.	For us, all loans and advances to customers are used in the PRC instead of in Hong Kong. We are subject to the supervision of CBRC and maintain a breakdown of loans and advances to customers by industry sector based on the classification system as prescribed by CBRC, e.g., loans are categorized into corporate loans and personal loans which are further classified into detailed sub-categories by industry/nature. We have disclosed loans and advances to customers by industry sector in accordance with its management reports based on the CBRC classification in Note 19(2) to the Accountants' Report as set out in Appendix I of this prospectus. We consider that the current disclosure is sufficient to serve HKMA's disclosure objectives.	N/A

Section Number	Disclosure Requirements[(1)]	Reason for a Waiver in Relation to the Specific Disclosure	Proposal for Disclosure	Expected Timing for Full Compliance
50	An authorized institution shall disclose its non-HK$ currency exposures which arise from trading, non-trading and structural positions in accordance with the return relating to non-HK$ currency positions it submitted to HKMA in respect of the annual reporting period pursuant to the requirements under section 63 of the Banking Ordinance.	Our accounts are settled in RMB, which means that we only disclose non-RMB currency exposures instead of non-HK$ currency exposures.	N/A	N/A
53-64	Additional annual disclosure to be made by an authorized institution using STC approach to calculate its credit risk for non-securitization exposures.	The computation basis for risks adopted by us is promulgated by CBRC as set out in the Core Indicators (Trial).	We can provide relevant capital structure and adequacy in accordance with the disclosure requirements from CBRC. We believe that such requirements attempt to address similar disclosure objective of the requirements under the Banking (Disclosure) Rules.	N/A
103A	An authorized institution that is a category 1 institution must disclose the average value of its liquidity coverage ratio and related information for each quarter in each reporting period ending after December 31, 2014; and make the required disclosures by using any standard disclosure template specified by HKMA.	Pursuant to the Rules on Liquidity Risk Management of Commercial Banks (Provisional) (《商業銀行流動性風險管理辦法(試行)》) issued by CBRC effective on March 1, 2014, commercial banks with total assets below RMB200 billion are not required to comply with the regulatory requirements of liquidity coverage ratio[(2)]. As such, we are not required by CBRC to calculate such liquidity coverage ratio.	We can provide relevant ratios in relation to liquidity risks, such as liquidity ratio[(3)] and loan-to-deposit ratio in accordance with the disclosure requirements from CBRC. In addition, we will disclose the liquidity coverage ratio and related information in annual reports, interim reports and special quarterly announcements after the Listing.	We will disclose the liquidity coverage ratio and related information in our annual report for the year ending December 31, 2015.

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

(2) Pursuant to Article 37 of the Rules on Liquidity Risk Management of Commercial Banks (Provisional), liquidity coverage ratio = (high-quality liquid assets/ net cash outflow over the next 30 days) x 100%. High-quality liquid assets mean various assets that can be quickly converted into cash at little or no loss of value in the financial market by sale or as collateral under the stress scenarios set for liquidity coverage ratio (including the impact on the commercial bank itself and the systemic impact on the entire market). Net cash outflow means the difference between the total expected cash outflow and the total expected cash inflow under the stress scenarios set for liquidity coverage ratio over the next 30 days.

(3) Pursuant to Article 38 of the Rules on Liquidity Risk Management of Commercial Banks (Provisional), liquidity ratio = current assets/ current liabilities x 100%. Current assets include cash, gold, surplus deposit reserve, net placement and deposits with banks and other financial institutions due within one month, interest receivable and other receivables due within one month, qualified loans due within one month, bond investments due within one month, debt securities that can be liquidated on the domestic or international secondary markets at any time and other liquid assets due within one month (excluding the non-performing portion of such assets). Current liabilities include demand deposits (excluding fiscal deposits), time deposits due within one month (excluding fiscal deposits), net placements and deposits from banks and other financial institutions due within one month, issued bonds due within one month, interest payable and all kinds of payables due within one month, borrowings from PBoC due within one month and other liabilities due within one month.

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

Based on the above, we have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 4.10 of the Listing Rules, such that we will not fully comply with the requirements in respect of the financial disclosures provided for under the Banking (Disclosure) Rules on the condition that we provide alternative disclosure in accordance with the regulatory requirements of CBRC and PBoC.

WAIVER IN RELATION TO JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, our company secretary must be an individual who by virtue of his academic or professional qualifications or relevant experience is, in the opinion of the Hong Kong Stock Exchange, capable of discharging the functions of company secretary. The Hong Kong Stock Exchange considers the following academic or professional qualifications to be acceptable.

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

We have appointed Ms. Lu Lan ("Ms. Lu") as one of the joint company secretaries. Ms. Lu has been the secretary to the Board since August 2010. Ms. Lu has extensive knowledge about our business operations and corporate culture and has extensive experience in matters concerning the Board and our corporate governance. However, Ms. Lu does not possess the specified qualifications strictly required by Rule 3.28 of the Listing Rules. As a result, we have appointed Ms. Lai Siu Kuen ("Ms. Lai"), who meets the requirements under Rule 3.28 of the Listing Rules, to act as the other joint company secretary and to provide assistance to Ms. Lu for an initial period of three years from the Listing Date so as to fully comply with the requirements set forth under Rules 3.28 and 8.17 of the Listing Rules.

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

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements of Rules 3.28 and 8.17 of the Listing Rules, for an initial period of three years from the Listing Date, on the condition that Ms. Lai is engaged as a joint company secretary and provides assistance to Ms. Lu during this period. If Ms. Lai ceases to render assistance to Ms. Lu during this period, the waiver will be immediately withdrawn. Upon expiry of the three-year period, the Hong Kong Stock Exchange will conduct a further evaluation of the qualification and experience of Ms. Lu to determine whether the requirements as stipulated in Rules 3.28 and 8.17 of the Listing Rules can be satisfied. We and Ms. Lu would then endeavor to demonstrate to the Hong Kong Stock Exchange's satisfaction that Ms. Lu, having had the benefit of Ms. Lai's assistance, would have acquired the relevant experience within the meaning of Note 2 to Rule 3.28 of the Listing Rules.

WAIVER IN RELATION TO MANAGEMENT PRESENCE

Pursuant to Rules 8.12 and 19A.15 of the Listing Rules, we must have a sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. Since substantially all of our business operations are outside of Hong Kong, and all of our executive Directors ordinarily reside in the PRC, we do not have, and for the foreseeable future will not have, sufficient management presence in Hong Kong for the purpose of satisfying the requirements under Rule 8.12 of the Listing Rules. Accordingly, we have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Rules 8.12 and 19A.15 of the Listing Rules on the condition of the following arrangements for maintaining regular communication with the Hong Kong Stock Exchange.

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

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

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

(d) we have appointed a compliance advisor, Somerley Capital Limited, pursuant to Rule 3A.19 and 19A.05 of the Listing Rules to act as our additional channel of communication with the Hong Kong Stock Exchange for the period commencing on the Listing Date and ending on the date on which we issue our financial results for the first full financial year commencing after the Listing Date. The compliance advisor will have access at all times to our authorized representatives, the Directors and the other senior management to ensure that it is in a position to provide prompt responses to any inquiries or requests from the Hong Kong Stock Exchange in relation to us; and

(e) we will also appoint other professional advisors (including legal advisors and accountants) after the Listing Date to assist us in dealing with any questions or queries raised by the Hong Kong Stock Exchange and to ensure that there will be efficient communication with the Hong Kong Stock Exchange.

DIRECTORS

Name	Residential Address	Nationality
Executive Directors		
Mr. GUO Shaoquan (郭少泉) (*Chairman*)	1-501, No.3 Building No. 2 Yueyang Road Shinan District Qingdao, Shandong Province PRC	Chinese
Mr. WANG Lin (王麟)	4-1803, No.7 Zengcheng Road Shinan District Qingdao, Shandong Province PRC	Chinese
Mr. YANG Fengjiang (楊峰江)	3-602, No.122 Minjiang Road Shinan District Qingdao, Shandong Province PRC	Chinese
Non-executive Directors		
Mr. ZHOU Yunjie (周雲傑)	1-401, Block 26 No. 67 Hong Kong East Road Laoshan District Qingdao, Shandong Province PRC	Chinese
Mr. Rosario STRANO	Via Borromei, 9 20123 Milano Italy	Italian
Mr. WANG Jianhui (王建輝)	1-601, No.1 Building No.7 Xing'an Branch Road Shinan District Qingdao, Shandong Province PRC	Chinese
Ms. TAN Lixia (譚麗霞)	2-8, No. 71 Tuandao Road One Shinan District Qingdao, Shandong Province PRC	Chinese
Mr. Marco MUSSITA	East Nippori 2-36-4-901 116-0014 Tokyo Arakawa Japan	Italian
Independent Non-executive Directors		
Mr. WANG Zhuquan (王竹泉)	2-502, No. 30 Building No. 23 Hong Kong East Road Shinan District Qingdao, Shandong Province PRC	Chinese

Name	Residential Address	Nationality
Mr. DU Wenhe (杜文和)	13-402, No.4 Building Feng Hui Community Xicheng District Beijing PRC	Chinese
Mr. WONG Tin Yau, Kelvin (黃天祐)	4-2, Block D, Greenville Gardens Shiu Fai Terrace, Stubbs Road Hong Kong	Chinese (Hong Kong)
Mr. CHEN Hua (陳華)	1-302, No. 10 Building No. 7366 Second Ring East Road Lixia District Ji'nan, Shandong Province PRC	Chinese

SUPERVISORS

Name	Residential Address	Nationality
Ms. ZOU Junqiu (鄒君秋) *(Chairlady)*	5-202, No.1 Wushengguan Road Shinan District Qingdao, Shandong Province PRC	Chinese
Mr. FAN Jianjun (范建軍)	1-101, Tower 23 No.208 Hong Kong East Road Laoshan District Qingdao, Shandong Province PRC	Chinese
Mr. SUN Jigang (孫繼剛)	21-404, Tongshan Road Shibei District Qingdao, Shandong Province PRC	Chinese
Mr. XU Wansheng (徐萬盛)	No.89 Nanjing Road Shinan District Qingdao, Shandong Province PRC	Chinese
Mr. WANG Jianhua (王建華)	7-14B, East Sea Garden Futian District Shenzhen, Guangdong Province PRC	Chinese
Mr. FU Changxiang (付長祥)	1-A-702, Yangkou Road Shinan District Qingdao, Shandong Province PRC	Chinese
Mr. HU Yanjing (胡燕京)	1-101, Tower 20 No.23 Hong Kong East Road Shinan District Qingdao, Shandong Province PRC	Chinese

For more information on our Directors and Supervisors, see "Directors, Supervisors and Senior Management".

PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Sponsors	**Goldman Sachs (Asia) L.L.C.** 68th Floor, Cheung Kong Center 2 Queen's Road Central Central Hong Kong
	CITIC CLSA Capital Markets Limited 18th Floor, One Pacific Place 88 Queensway Hong Kong
Joint Global Coordinators	**Goldman Sachs (Asia) L.L.C.** 68th Floor, Cheung Kong Center 2 Queen's Road Central Central Hong Kong
	AMTD Asset Management Limited Rooms 2501-2503 25/F World Trade Centre 280 Gloucester Road Causeway Bay, Hong Kong
	CLSA Limited 18th Floor, One Pacific Place 88 Queensway Hong Kong
Joint Bookrunners and Joint Lead Managers	**Goldman Sachs (Asia) L.L.C.** 68th Floor, Cheung Kong Center 2 Queen's Road Central Central Hong Kong
	AMTD Asset Management Limited Rooms 2501-2503 25/F World Trade Centre 280 Gloucester Road Causeway Bay Hong Kong
	CLSA Limited 18th Floor, One Pacific Place 88 Queensway Hong Kong

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

ABCI Capital Limited
(as to Joint Bookrunner)
10/F, Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

ABCI Securities Company Limited
(as to Joint Lead Manager)
10/F, Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

China Merchants Securities (HK) Co., Limited
48/F, One Exchange Square
8 Connaught Place
Central
Hong Kong

Guosen Securities (HK) Capital Company Limited
42/F, Two International Finance Centre
No. 8 Finance Street
Central
Hong Kong

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

Guotai Junan Securities (Hong Kong) Limited
27/F., Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

BNP Paribas Securities (Asia) Limited
59/F – 63/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

BANCA IMI S.p.A
(in relation to the International Offering only)
3 Largo Mattioli, 20121
Milan, Italy

Legal Advisors to the Bank	*As to Hong Kong and United States law:* **King & Wood Mallesons** 13th Floor, Gloucester Tower The Landmark, 15 Queen's Road Central Central Hong Kong *As to PRC law:* **King & Wood Mallesons** 20th Floor, East Tower World Financial Center 1 Dongsanhuan Zhonglu Chaoyang District Beijing PRC
Legal Advisors to the Joint Sponsors, the Hong Kong Underwriters and the International Underwriters	*As to Hong Kong and United States law:* **Clifford Chance** 27th Floor, Jardine House One Connaught Place Hong Kong *As to PRC law:* **Haiwen & Partners** 20th Floor, Fortune Financial Center 5 Dongsanhuan Zhonglu Chaoyang District Beijing PRC
Reporting Accountants	**KPMG** *Certified Public Accountants* 8th Floor, Prince's Building 10 Chater Road Central Hong Kong
Financial Advisor	**Rothschild (Hong Kong) Limited** 16th Floor, Alexandra House 18 Chater Road Central Hong Kong
Compliance Advisor	**Somerley Capital Limited** 20th Floor, China Building 29 Queen's Road Central Hong Kong

Receiving Banks

Bank of China (Hong Kong) Limited
1 Garden Road
Hong Kong

Bank of Communications Co., Ltd. Hong Kong Branch
20 Pedder Street
Central, Hong Kong

Registered Address and Address of Head Office	No.68 Hong Kong Middle Road Shinan District Qingdao Shandong Province PRC
Principal Place of Business in Hong Kong	36th Floor, Tower Two, Times Square 1 Matheson Street Causeway Bay Hong Kong
Website Address	www.qdccb.com (*The contents of the website do not form a part of this prospectus*)
Joint Company Secretaries	Ms. LU Lan 4-602, Yandao International No.7 Zengcheng Road Shinan District Qingdao, Shandong Province PRC Ms. LAI Siu Kuen (*FCIS, FCS*) 36th Floor, Tower Two, Times Square 1 Matheson Street Causeway Bay Hong Kong
Authorized Representatives	Mr. GUO Shaoquan 1-501, No.3 Building No. 2 Yueyang Road Shinan District Qingdao, Shandong Province PRC Ms. LU Lan 4-602, Yandao International No.7 Zengcheng Road Shinan District Qingdao, Shandong Province PRC
Board Committees	**Strategy Committee** Mr. GUO Shaoquan (*Chairman*) Mr. ZHOU Yunjie Mr. Rosario STRANO Mr. WANG Jianhui Mr. WANG Lin Mr. WONG Tin Yau, Kelvin Mr. CHEN Hua

Audit Committee
Mr. WANG Zhuquan (*Chairman*)
Mr. WANG Jianhui
Ms. TAN Lixia
Mr. WONG Tin Yau, Kelvin
Mr. CHEN Hua

Related Party Transactions Control Committee
Mr. CHEN Hua (*Chairman*)
Mr. YANG Fengjiang
Mr. WANG Zhuquan
Mr. DU Wenhe
Mr. WONG Tin Yau, Kelvin

Risk Management Committee
Mr. WANG Lin (*Chairman*)
Ms. TAN Lixia
Mr. Marco MUSSITA
Mr. YANG Fengjiang
Mr. CHEN Hua

Nomination Committee
Mr. WONG Tin Yau, Kelvin (*Chairman*)
Mr. GUO Shaoquan
Mr. ZHOU Yunjie
Mr. WANG Lin
Mr. WANG Zhuquan
Mr. DU Wenhe
Mr. CHEN Hua

Remuneration Committee
Mr. WANG Zhuquan (*Chairman*)
Mr. GUO Shaoquan
Mr. ZHOU Yunjie
Mr. Rosario STRANO
Mr. WONG Tin Yau, Kelvin
Mr. DU Wenhe
Mr. CHEN Hua

Information Technology Committee
Mr. DU Wenhe (*Chairman*)
Mr. GUO Shaoquan
Ms. TAN Lixia
Mr. WANG Lin
Mr. Marco MUSSITA

H Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen’s Road East, Wanchai Hong Kong

This section contains information and statistics relating to the industry in which we operate. We have extracted and derived such information, in part, from data relating to us which were prepared in accordance with IFRS, and from various official or publicly available sources derived from data prepared in accordance with PRC GAAP or other applicable GAAP or accounting standards which may differ from IFRS in certain significant respects. In addition, the information provided by the various official or publicly available sources may not be consistent with the information compiled within or outside China by third parties.

We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Selling Shareholders, the Joint Sponsors, the Joint Bookrunners, the Underwriters or any other party involved in the Global Offering and no representation is given as to its accuracy. Accordingly, such information should not be unduly relied upon. As of the Latest Practicable Date, our Directors confirm that, after taking reasonable care, there has been no material adverse change in the market information presented in this section.

OVERVIEW

China's Economy

China is the second largest economy in the world. According to NBS, nominal GDP of China from 2009 to 2014 grew at a CAGR of 13.0% from RMB34,563 billion to RMB63,614 billion. In the meantime, the individual wealth has been boosted by the continuous economic growth of China, the disposable income per capita increased at a CAGR of 10.9% from RMB17,175 in 2009 to RMB28,844 in 2014.

After rapid growth for three decades, the PRC economy is now entering into a stage of "New Normal", which is characterized by (i) shifting the focus of economic development from the pursuit of high GDP growth to optimizing economic structure, and (ii) economic development through innovation instead of investment. Furthermore, the PRC government has placed a great emphasis on the cooperation with other countries and regions. With an aim to drive the economic growth of China in the future, the government further opens its market through developing the "One Belt and One Road" policy, which connects China and Europe through the "Silk Road Economic Belt (絲綢之路經濟帶)" via Central Asia and West Asia and connects China, Southeast Asia, Africa and Europe through the "21st Century Maritime Silk Road (21世紀海上絲綢之路)".

	2009	2010	2011	2012	2013	2014	CAGR (2009-2014)
Nominal GDP (in billions of RMB)	34,563	40,890	48,412	53,412	58,802	63,614	13.0%
Actual GDP growth rate	9.2%	10.6%	9.5%	7.7%	7.7%	7.3%	N/A
Per capita disposable income of urban households (in RMB)	17,175	19,109	21,810	24,565	26,467	28,844	10.9%
Per capita disposable income of urban households growth rate	8.8%	11.3%	14.1%	12.6%	7.7%	9.0%	N/A

Source: Website of NBS, National Economic and Social Development Statistic Bulletin

Shandong Province's Economy

Shandong Province is the second largest in China in terms of population. The nominal GDP of Shandong Province amounted to RMB5,942.7 billion in 2014, the third largest in China. The annual growth rate of the actual GDP of Shandong Province from 2009 to 2014 was higher than that of the nation. Automobile, shipbuilding, petroleum chemical, manufacturing of equipment, information technology and other industries are well developed in Shandong Province. The total industrial value added of Shandong Province from 2009 to 2014 ranked third among all provinces in China. In addition, benefiting from the national strategy under the Plan for the Development of the Blue Economic Zone in the Shandong Peninsula (《山東半島藍色經濟區發展規劃》), Shandong Province capitalizes on the advantages of its coastal area and integrates its marine resources to promote the sustainable development of the marine economy. The "One Belt and One Road (一帶一路)" strategy promoted by China will facilitate the expansion in overseas markets and import and export businesses, which in turn is expected to bring positive effects to the future development of Shandong Province economy.

Qingdao is one of the five cities specially designated in China's state plans (五個計劃單列市), and the largest city in Shandong Province in terms of GDP contribution from 2009 to 2014. Leveraging its advantage of being a major coastal city, Qingdao has developed several key industries including port logistics, tourism, electronics and electrical appliance manufacturing and marine scientific research. Qingdao is one of the major cities along the new economic belt connecting Asia and Europe as well as a strategic location for marine cooperation under the "One Belt and One Road" strategy. Furthermore, the West Coast area of Qingdao has become the ninth national-level new district, providing a valuable opportunity for further development of the Blue Economic Zone.

The table below sets forth the GDP, value added of three major industries, total fixed asset investment as well as total import and export volume of Shandong Province from 2009 to 2014.

	For the year ended December 31,						CAGR
	2009	2010	2011	2012	2013	2014	(2009-2014)
Nominal GDP (in billions of RMB)	3,390	3,917	4,536	5,001	5,523	5,943	11.9%
Value added of the primary industry (in billions of RMB)	323	359	397	428	457	480	8.2%
Value added of the secondary industry (in billions of RMB)	1,890	2,124	2,402	2,574	2,744	2,879	8.8%
Value added of the tertiary industry (in billions of RMB)	1,177	1,434	1,737	2,000	2,322	2,584	17.0%
Total fixed asset investments (in billions of RMB)	1,903	2,328	2,677	3,126	3,679	4,250	17.4%
Total import and export volume (in billions of US$)	139	189	236	246	267	277	14.8%

Source: Website of NBS

CHINA'S BANKING INDUSTRY

Overview

China's banking industry has grown rapidly in the last decade, primarily driven by strong macroeconomic growth in China. From 2009 to 2014, the aggregate RMB-denominated loans and deposits of China's banking institutions grew at a CAGR of 15.4% and 13.8%, respectively. The table below sets forth information on the aggregate RMB- and foreign currency-denominated loans and deposits of China's banking institutions as of the dates indicated:

	2009	2010	2011	2012	2013	2014	CAGR (2009-2014)
RMB-denominated bank loans (in billions of RMB)	39,968	47,920	54,795	62,991	71,896	81,677	15.4%
RMB-denominated bank deposits (in billions of RMB)	59,774	71,824	80,937	91,755	104,385	113,864	13.8%
Foreign currency-denominated bank loans (in billions of US$)	379	453	539	684	777	835	17.1%
Foreign currency-denominated bank deposits (in billions of US$)	209	229	275	406	439	573	22.3%

Source: PBoC

Banking institutions in the PRC are generally divided into six broad categories: Large commercial banks, Joint stock commercial banks, City Commercial Banks, rural financial institutions, foreign financial institutions and other banking financial institutions. The table below sets forth certain information on banking institutions in China's banking industry by type of banking institution for the periods indicated:

	Number of institutions	Total assets			Total equity attributable to shareholders			Profit after tax		
		Amount	Market share	CAGR (2009-2014)	Amount	Market share	CAGR (2009-2014)	Amount	Market share	CAGR (2009-2014)
		(in billions of RMB, except the number of institutions and percentages)								
Large commercial banks	5	71,014.1	41.2%	11.7%	5,300.6	43.1%	19.3%	889.8	46.2%	17.3%
Joint stock commercial banks	12	31,380.1	18.2%	21.6%	1,916.1	15.6%	27.7%	321.1	16.7%	28.3%
City Commercial Banks	133	18,084.2	10.5%	26.1%	1,247.0	10.1%	28.3%	186.0	9.6%	30.2%
Rural financial institutions(1)	2,350	21,315.5	12.4%	19.8%	1,519.8	12.3%	28.7%	233.8	12.1%	35.5%
Foreign banks	41	2,792.1	1.6%	15.7%	308.9	2.5%	13.0%	19.7	1.0%	25.0%
Other banking institutions(2)	1,550	27,724.4	16.1%	19.9%	2,018.3	16.4%	22.7%	277.2	14.4%	32.3%
Total	4,091	172,310.4	100.0%	16.7%	12,310.7	100.0%	22.6%	1,927.6	100.0%	23.6%

Source: CBRC's 2014 Annual Report

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

(2) Comprises policy banks, new-type rural financial institutions, Postal Savings Bank of China, other non-banking institutions (including financial asset management companies, Sino-German Bausparkasse, trust companies, finance companies of corporate groups, financial leasing companies, money brokerage firms, auto financing companies, consumer finance companies, rural banks, lending companies and rural cooperative financial institutions).

City Commercial Banks

According to CBRC's 2014 Annual Report, as of December 31, 2014, there were 133 City Commercial Banks in China. Leveraging on their understanding of the local market and relationship with local customers, City Commercial Banks generally have better exposure to opportunities in the local market. According to CBRC, the total assets of City Commercial Banks as a percentage of total assets of the banking industry in China increased from 7.1% (RMB5,680 billion) as of December 31, 2009 to 10.5% (RMB18,084 billion) as of December 31, 2014, representing a CAGR of 26.1%.

The table below sets forth certain information relating to City Commercial Banks in China for the years indicated:

	2009	Market share(1)	2010	Market share(1)	2011	Market share(1)	2012	Market share(1)	2013	Market share(1)	2014	Market share(1)	CAGR (2009-2014)
	(in billions of RMB, except percentages)												
Total assets	5,680	7.1%	7,853	8.2%	9,985	8.8%	12,347	9.2%	15,178	10.0%	18,084	10.5%	26.1%
Total liabilities	5,321	7.1%	7,370	8.2%	9,320	8.8%	11,540	9.2%	14,180	10.0%	16,837	10.5%	25.9%
Total owners' equity . .	359	8.1%	482	8.3%	664	9.2%	808	9.3%	997	9.8%	1,247	10.1%	28.3%
Profit after tax	50	7.5%	77	8.6%	108	8.6%	137	9.1%	164	9.4%	186	9.7%	30.2%

Source: CBRC's 2014 Annual Report

(1) Represent the relevant percentage to the total of all financial institutions in the banking industry of China

COMPETITIVE LANDSCAPE OF THE BANKING INDUSTRY IN SHANDONG AND QINGDAO

With the stable economic growth in Shandong Province, the banking industry of Shandong Province has recorded rapid expansion. According to the Shandong Office of CBRC, the total assets of banking institutions in Shandong amounted to RMB8,668.1 billion as of December 31, 2014, representing a CAGR of 15.8% from 2009 to 2014. The total liabilities of banking institutions in Shandong Province as of December 31, 2014 amounted to RMB8,364.4 billion, representing a CAGR of 15.1% from 2009. According to the CBRC Qingdao Office, as of December 31, 2014, the total assets of banking institutions in Qingdao amounted to RMB1,635.9 billion, representing a 7.9% increase from December 31, 2013, and the total customer loans and deposits of banking institutions in Qingdao amounted to RMB1,053.3 billion and RMB1,190.8 billion, respectively, representing increases of 9.3% and 4.3%, respectively, from December 31, 2013.

As a City Commercial Bank based in Shandong Province, we mainly compete with other commercial banking institutions with operations in Shandong Province. As of December 31, 2014, our total assets, total deposits, total loans (net), total equity and net profits were approximately RMB156.2 billion, RMB101.7 billion, RMB61.2 billion, RMB9.8 billion and RMB1.5 billion, respectively. According to the information disclosed by other City Commercial Banks in Shandong Province, as of December 31, 2014, we ranked first among the City Commercial Banks in Shandong Province in terms of total assets, total deposits, total loans, total equity and net profits. As of December 31, 2014, our total loans originated in Qingdao ranked 7th among all the banks in Qingdao with a market share of 4.5% and our total deposits in Qingdao ranked 7th among all the banks in Qingdao with a market share of 7.2%.

INDUSTRY TRENDS

Interest Rate Liberalization and Other Regulatory Changes

In recent years, China has implemented a series of policies and measures promoting the liberalization of the financial system and, at the same time, strengthening the regulation and supervision of the banking industry.

In the PRC, interest rates on RMB-denominated loans and deposits are set by commercial banks with reference to the benchmark interest rates on loans and deposits published and adjusted from time to time by PBoC. In recent years, the progress of interest rate liberalization in China gained momentum. With effect from June 8, 2012, PBoC allowed financial institutions to set interest rates on RMB-denominated deposits at up to 110% of the PBoC benchmark interest rates. On July 20, 2013, PBoC abolished floor interest rates on RMB-denominated loans (excluding interest rates on residential mortgage loans) and allowed financial institutions to set interest rates on loans based on commercial considerations. On November 22, 2014, PBoC allowed financial institutions to set interest rates on RMB-denominated deposits at up to 120% of the PBoC benchmark interest rates, which was raised to 130% and then 150% of the PBoC benchmark interest rates effective March 1, 2015 and May 11, 2015, respectively. Effective August 26, 2015, PBoC removed the cap on the interest rates on RMB-denominated time deposits with tenors of longer than one year while the cap on the interest rates on RMB-denominated demand deposits and time deposits with tenors up to one year remain unchanged. Furthermore, effective October 24, 2015, PBoC removed the cap on interest rates on deposits and allowed commercial banks in China to set interest rates on deposits based on commercial considerations.

The Deposit Insurance Regulation (《存款保險條例》) came into effect on May 1, 2015. This was an important step in interest rates liberalization in China. Pursuant to the Deposit Insurance Regulation, each depositor shall be compensated up to a maximum of RMB500,000 in the event of liquidation of a bank. Each depositor is fully protected for deposits within the prescribed limit, including the principal of, and accrued interests on, RMB and foreign currency denominated deposits.

Interest rate liberalization allows commercial banks to set interest rates on deposits and loans more proactively, but may possibly intensify competition in China's banking industry and could further affect the banks' (including us) net interest spreads, net interest margin and results of operation.

In addition, the PRC regulatory authorities have relaxed constraints on certain businesses, products and financing channels of commercial banks, for example, limitations on asset securitization have been relaxed in recent years, allowing commercial banks to issue interbank deposits in the interbank market. This provides opportunities for the PRC banking industry to develop new businesses and enrich financing channels.

Meanwhile, the regulatory authorities of the PRC banking industry have developed and further refined the prudential regulatory regimes, and strengthened supervision over various aspects including corporate governance, internal control, compliance and risk management. For instance, the regulatory authorities of the PRC banking industry have promulgated a number of regulations to strengthen capital regulation on commercial banks according to the development of Basel Accords, imposed strict and prudential requirements and supervision on wealth management products, interbank business and others, and enhanced information technology risk management. CBRC has also promulgated a series of regulatory requirements on the real estate industry and local government financing vehicles, requiring PRC commercial banks to strengthen risk control over each of these types of business.

For further information on regulation of the PRC banking industry, see "Supervision and Regulation".

Increasing Demands for Personal Financial Services

With rapid growth in the PRC economy, the disposable income of PRC residents has been increasing continuously for the past three decades. According to information from NBS, per capita disposable income of PRC urban households increased from RMB17,175 in 2009 to RMB28,844 in 2014, at a CAGR of 10.9%.

The table below sets forth the per capita disposable income of PRC urban residents, the total amount of RMB-denominated deposits of PRC urban and rural residents, the total amount of PRC domestic personal RMB-denominated loans and their percentage of total domestic loans for the years indicated:

	For the year ended December 31,						CAGR (2009-2014)
	2009	2010	2011	2012	2013	2014	
Per capita disposable income of urban households (RMB)	17,175	19,109	21,810	24,565	26,467	28,844	10.9%
Total amount of RMB-denominated deposits of urban and rural residents (in billions of RMB)	26,077	30,330	34,364	39,955	44,760	48,526	13.2%
Total amount of domestic personal RMB-denominated loans (in billions of RMB)	8,179	11,254	13,601	16,130	19,850	23,141	23.1%
As a percentage of total domestic loans	20.5%	23.5%	24.9%	25.7%	27.7%	28.4%	N/A

Source: Websites of NBS, PBoC, National Economic and Social Development Statistics Bulletin

In recent years, personal wealth of PRC residents has continued to grow. According to the China Private Wealth Report (2015) jointly issued by Bain & Company and China Merchants Bank, the amount of personal investable assets held by PRC residents reached an aggregate of RMB112 trillion in 2014, at a CAGR of 16% from 2012 to 2014. The population of high-net-worth individuals in the PRC who have investable assets of more than RMB10 million has increased every year. In 2014, the population of high-net-worth individuals in the PRC exceeded 1 million for the first time, with a CAGR of 21% from 2012 to 2014.

In view of the rapid growth in disposable income of PRC residents, an increasing amount of individual investable assets and the growing demand from residents for banking services and wealth management services, commercial banks in China continue to expand financial product and service offerings to individual customers and extend coverage to services such as asset management, wealth management and private banking. As the demands from residents for wealth protection, asset appreciation and diversified asset allocation grow continuously, these financial services have high growth potential in China. Meanwhile, along with increasing demand from individuals for diversified financial services and rapid development in mobile technology, new personal financial products are being introduced continuously and the channels in which financial services are provided by the PRC banking industry are being expanded continuously.

Increasing Importance of Banking Services for Small and Micro Enterprises

In recent years, loans to small and micro enterprises have grown rapidly. According to the National Small and Micro Enterprises Development Report (《全國小型微型企業發展情況報告》) published by the SAIC, as of December 31, 2013, there were approximately 11.7 million small and micro enterprises in China, representing 76.6% of the total number of enterprises in China. According to statistics from the CBRC website, as of March 31, 2015, loans from commercial banks to small and micro enterprises amounted to approximately RMB15.9 trillion in aggregate, representing 22.6% of the total loans of commercial banks.

In recent years, the State Council, PBoC and CBRC have issued a number of policies and measures to incentivize the development and offering of innovative financial products and credit services to small and micro enterprises and increase loans to them. These policies and measures include the following:

- In March 2013, CBRC issued the Notice on Deepening Financial Services for Small and Micro Enterprises (《關於深化小微企業金融服務的意見》), urging commercial banks to improve their service quality and expand financial product offerings, financing channels and network coverage for small and micro enterprises. The notice also lifted certain geographic restrictions on the opening of sub-branches of commercial banks whose credit business for small and micro enterprises meets certain criteria.

- In August 2013, the General Office of the State Council issued the Implementation Opinions on Financial Support to Developing Small and Micro Enterprises (《關於金融支持小微企業發展的實施意見》) and CBRC issued the Guiding Opinions on Further Enhancing Financial Service Work for Small and Micro Enterprises (《關於進一步做好小微企業金融服務工作的指導意見》), providing policy support to service innovations, credit enhancement and information services as well as direct financing channels, and financial and tax support to small and micro enterprises, reinforcing the requirements that (i) the growth rate of loans extended by each banking institution to small and micro enterprises be no lower than the average growth rate of various types of loans; and (ii) the incremental amounts of loans of each banking institution to small and micro enterprises be no less than that of the previous year.

With the sustainable development of China's capital market, large-scale enterprises and group customers will resolve to satisfy some of their financing needs from the capital market instead of bank borrowings, and consequently, small and micro enterprises will become an increasingly important customer base for PRC commercial banks. Under the incentive policies of the PRC government and active promotion by the PRC banking industry, it is expected that small and micro enterprise financial services will become a more important business area of the PRC banking industry.

Development of China's Capital Markets and Increase in Fee and Commission Income in Commercial Banks

In recent years, China has launched a number of initiatives to further develop its capital markets, including replacing the approval requirement with the registration procedures for offering asset-backed securities, deregulating public offerings of corporate bonds, implementing a registration system for private placements of bonds, introducing the Shanghai-Hong Kong Stock Connect, and announcing the Mainland-Hong Kong Mutual Recognition of Funds.

These developments may affect the core business of the PRC banking industry. For example, the deepening of China's debt markets may affect the loan business of commercial banks, as certain corporate borrowers may issue debt securities at lower costs, which may lessen the demand for bank loans. In addition, the development of capital markets created opportunities for PRC commercial banks to provide diversified financial products and services, in particular, promoting the rapid development of fee- and commission-based businesses such as wealth management services, investment banking business and distribution of funds. In addition, the development of China's capital markets also broadened the variety of investment securities for commercial banks, for instance, a number of commercial banks have introduced new products such as asset-backed securities and interbank deposits into their investment portfolios, which may offer higher yields than traditional bond investments.

Challenges and Opportunities Arising for Traditional Banks from Internet Banking

In recent years, along with further development of online wealth management products, third-party online payment platforms and Internet financing service platforms, PRC traditional banking institutions have faced with new challenges from the innovation of financial products and technology. For instance, third-party online payments totaled RMB7.4 trillion in 2014, accounting for almost 60% of all online payments. Meanwhile, similar to other commercial banks, we also face with competition from other types of Internet finance, such as P2P lending and crowdfunding.

Although the Internet-based financial services industry remains in its infancy, it has significant growth potential. Faced with competition from the rapidly-growing Internet-based financial service platforms, the PRC banking industry has capitalized on rapidly developing digital and mobile technology to introduce new businesses, products and service platforms, including the establishment of e-commerce platforms to provide financial services to customers and set-up of online sales platforms for their financial products. Certain commercial banks have attempted to improve operating efficiency and risk management by utilizing bulk data technology. In addition, certain PRC commercial banks have launched direct banking services to provide customers with user-friendly and value-for-money financial products and services through e-channels.

Trend Towards the Full-service Model of the PRC Banking Industry

With interest rate liberalization, the full-service model will become one of the trends of the PRC banking industry in the future.

So far, PRC commercial banks are allowed to apply for licenses of, among others, trust, funds, insurance and financial leasing. The transformation towards the full-service model will be a gradual process, as the relaxation of financial licenses involves various changes in laws and regulations and reform of the regulatory regimes. It is expected that investment banking, private equity and asset management will become three major areas for full-service operations of the PRC banking industry. Commercial banks will gain market share in capital market businesses by virtue of their strengths in scale and resources and offer diversified and integrated financial services leveraging their large customer base. As such, the full-service model will become a new way to improve the profitability of PRC commercial banks and will significantly improve the ecosystem of the PRC financial industry.

OVERVIEW

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

HISTORY AND DEVELOPMENT OF THE REGULATORY FRAMEWORK

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

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

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

On August 29, 2015, the Standing Committee of the NPC promulgated the Decision of the Standing Committee of the National People's Congress on Amending the Commercial Banking Law of the People's Republic of China (《全國人民代表大會常務委員會關於修改〈中華人民共和國商業銀行法〉的決定》) and the amended PRC Commercial Banking Law came into effect on October 1, 2015.

PRINCIPAL REGULATORS

CBRC

Functions and Powers

CBRC is the principal regulatory authority in the PRC responsible for the supervision and regulation of banking institutions operating in the PRC, including commercial banks, urban credit cooperatives, rural credit cooperatives, other deposit-taking financial institutions and policy banks, as well as certain non-bank financial institutions. CBRC is also responsible for the supervision and regulation of the entities established by domestic financial institutions outside the PRC and the overseas operations of the above-mentioned banking and non-banking financial institutions. According to the PRC Banking Supervision and Regulatory Law (as amended in 2006) and relevant regulations, CBRC's primary regulatory responsibilities include:

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

Examination and Supervision

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

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

PBoC and Inter-departmental Coordination Joint Meeting for Financial Supervision

As the central bank of the PRC, PBoC is responsible for formulating and implementing monetary policies and maintaining the stability of the PRC financial markets. According to the PRC PBoC Law and relevant regulations, PBoC is empowered to perform the following primary duties:

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

On August 15, 2013, the State Council issued the Reply of the State Council on the Establishment of the Inter-departmental Coordination Joint Meeting System for Financial Supervision (《國務院關於同意建立金融監管協調部際聯席會議制度的批覆》), pursuant to which an Inter-departmental Coordination Joint Meeting System was established under PBoC, with CBRC, CSRC, CIRC and SAFE as the members. Other government departments such as NDRC and MOF may be invited to attend the joint meetings, where necessary.

MOF

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

- formulating and implementing financial and taxation strategies, plans, policies and reform measures;
- drafting laws and regulations concerning fiscal, financial and accounting management and formulating department rules;
- managing state-owned financial assets, administering the appraisal of state-owned assets and participating in drafting rules governing the management of state-owned financial assets; and
- supervising the implementation of financial and taxation rules and policies, reporting critical issues in the management of fiscal revenue and expenditure and managing the financial supervision commissioners' office.

Other Regulatory Authorities

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

LICENSING REQUIREMENTS

Basic Requirements

Currently, the establishment of a City Commercial Bank requires the approval and issuance of an operating license by CBRC. Pursuant to the current regulatory requirements, in general, CBRC will not approve an application to establish a City Commercial Bank unless certain conditions are satisfied, including, amongst others:

- the articles of association are in compliance with the relevant requirements of the PRC Company Law and the PRC Commercial Banking Law;
- the registered capital is equal to its paid-up capital, subject to a minimum of RMB100 million;
- the directors and senior management of the proposed commercial bank possess the requisite qualifications and the proposed commercial bank has qualified practitioners who are familiar with the banking business;
- the organizational structure and the management system are sound;
- the business premises, safety and security measures and other facilities satisfy the needs of the business operation; and
- the information technology structure which satisfies the needs of the business operation has been set up, the information technology system supporting the business operation is necessary, safe and in compliance with the relevant laws and regulations, and possesses the technologies and measures to ensure its effectiveness and safety.

Significant Changes

City Commercial Banks are required to obtain approval from CBRC or its branches to undertake significant changes, including:

- change of the name of headquarters or branches;
- change of registered capital;
- change of domicile of headquarters or branches;
- change of business scope;
- change of form of organization;
- change of shareholders holding 5% or more of the bank's total capital or shares;
- investments in the equity interest in the bank by an overseas financial organization;
- amendments to the articles of association;
- establishment or termination of branches and sub-branches;
- merger or division; and
- dissolution, liquidation and etc.

Establishment of Domestic Branches

To establish a local branch, a City Commercial Bank must apply to the relevant local office of CBRC in its residence province (or autonomous regions or directly administered municipalities) where it is registered for approval and issuance of a finance license.

On April 16, 2009, CBRC issued the Opinions on Adjusting the Licensing Policies for the Establishment of Branch Outlets by Small- and Medium-Sized Commercial Banks (for Trial Implementation) (《關於中小商業銀行分支機構市場准入政策的調整意見(試行)》), pursuant to which, the establishment of branches and sub-branches by City Commercial Banks is no longer subject to a uniform standard of working capital requirement, instead the working capital requirement shall be coordinated, adjusted and allocated by the relevant City Commercial Bank according to its business development and capital management needs. The number of branches and sub-branches of a City Commercial Bank within the province (or autonomous region or directly administered municipality) where it is registered is no longer subject to any limit.

CBRC issued the Circular of the General Office of CBRC on Improving Rural Financial Services on February 16, 2013 (《中國銀監會辦公廳關於做好2013年農村金融服務工作的通知》), which allows a City Commercial Bank to apply for the establishment of branches within its home jurisdiction and adjacent regions with close economic connection but not beyond its residence province.

Scope of Business

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

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

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

REGULATIONS ON PRINCIPAL COMMERCIAL BANKING ACTIVITIES

Lending

To control risks relating to the extension of credit, commercial banks are required to establish a strict and centralized credit risk management system, to set up standard operation procedures for each step in the extension of credit process and to appoint qualified risk control personnel.

CBRC and other relevant authorities have issued a number of regulations and guidelines concerning loans and credit granted to certain industries and customers. For example:

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

- according to the Interim Measures for the Administration of Fixed Asset Loans (《固定資產貸款管理暫行辦法》), banking institutions are required to improve their internal control system, manage the entire lending process, fully understand their customers and projects, establish a risk management system for fixed asset loans and an effective mechanism for balancing different positions, clearly define the responsibilities of the departments for loan management and establish an evaluation and accountability mechanism for each person responsible for loan management. Commercial banks are also required to strengthen the management of the use of loan and improve the management of loan extension and repayment. In addition, banking institutions are required to agree with borrowers on contractual terms that are material to controlling credit risks, and establish a loan quality monitoring system and a loan risk alert system.

- according to the Interim Measures for the Administration of Working Capital Loans (《流動資金貸款管理暫行辦法》), banking institutions are required to establish effective internal control mechanism and risk management system to monitor the use of working capital loans and obtain comprehensive information from clients. They are also required to reasonably estimate the borrower's working capital demand and prudently determine credit limits for working capital loans to the borrower and the amount of each loan. Banking institutions cannot grant working capital loans that exceed the borrower's actual need. In addition, banking institutions are required to clearly specify in the loan agreement the legal use of the loan. Working capital loans cannot be used for fixed asset or equity investment, or for areas or purposes prohibited by the government.

- the Interim Measures for the Administration of Personal Loans (《個人貸款管理暫行辦法》), which requires banking institutions to establish an effective end-to-end management framework and risk management system for personal loans and specify certain conditions for personal loan applications. The measures also require that the use of personal loans shall comply with the relevant laws and policies. Banking institutions are prohibited from extending personal loans without designated purpose.

- the Guidelines on the Risk Management of Risks of Credits Granted by Commercial Banks to Group Borrowers (《商業銀行集團客戶授信業務風險管理指引》), which requires commercial banks to establish a risk management policies to control the credits granted to group borrowers and file these policies and procedures with the banking regulatory authorities. If the credit balance of a commercial bank to a single group customers exceeds 15% of its net capital, the commercial bank is required to take remediation measures to diversify risks through syndicated loans, loan participation and loan transfer. In line with its prudential supervision requirement, the banking regulatory authorities may lower such credit balance ratio.
- the Guidelines on the Management of Risks of Real Estate Loans Granted by Commercial Banks (《商業銀行房地產貸款風險管理指引》), which requires commercial banks to establish criteria for the review and approval of real estate loans (including land reserve loans, real estate development loans, personal residential mortgage loans, and commercial mortgage loans) and to develop risk management and internal control systems to manage the market risk, legal risk, and operational risk in the real estate loan market. Commercial banks are not allowed to grant loans in any form to projects without state-owned land use right certificates and relevant permissions. CBRC and its branches conduct periodic inspections on the implementation of such guidelines.
- the Notice of PBoC and CBRC on Issues Concerning the Improvement of Differentiated Housing Credit Policies (《中國人民銀行、中國銀行業監督管理委員會關於完善差別化住房信貸政策有關問題的通知》), which requires commercial banks to suspend the extension of housing loans to families who have three or more residential properties or to non-local residents who are unable to provide evidence of payments of local tax or social security over one year. With respect to a first-time purchaser of any residential property, the minimum down payment is set at 30%, while the minimum down payment for buyers purchasing a second residential property is 50% with the interest rate being no less than 110% of PBoC benchmark interest rates on loans. On March 8, 2011, CBRC issued the Notice of the General Office of CBRC on Issues Concerning the Improvement of Housing Financial Services and the Reinforcement of Risk Management (《中國銀監會辦公廳關於做好住房金融服務加強風險管理的通知》) which provides that the minimum down payment for a second-time home buyer is raised to 60% for housing loans granted after the issuance of the Notice of the General Office of the State Council on Issues Concerning Further Enforcing the Regulation and Control of Real Estate Market (《國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知》). On September 29, 2014, PBoC and CBRC issued the Notice of PBoC and CBRC on Further Improving Housing Financial Services (《中國人民銀行、中國銀行業監督管理委員會關於進一步做好住房金融服務工作的通知》), which sets the minimum down payment at 30% and the minimum interest rate at 70% of PBoC benchmark interest rates on loans for a family purchasing a residential property for self-use for the first time. The Notice further provides that banking institutions should apply the policies for first time home buyers to families which already own a residential property not subject to any outstanding mortgage, and are applying for a loan to purchase another residential property to improve their living conditions. In cities which have lifted or have not imposed any restrictions for property purchasing, where a family that owns two or more residential properties and has repaid in full all relevant loans applies for a loan to purchase another residential property, banking institutions shall undertake prudent assessment to determine the down payment ratio and the interest rate, taking into account factors including

the borrower's ability to make repayment and credit standing. On March 30, 2015, PBoC, Ministry of Housing and Urban-Rural Development of the PRC and CBRC released the Circular on Issues Concerning the Individual Home Loan Policies (《關於個人住房貸款政策有關問題的通知》). The Circular provides that in respect of families owning a residential property which is subject to outstanding mortgage, when they apply for commercial individual home loans for the purchase of another residential property as their second home to improve their living conditions, the minimum down payment required shall not be less than 40%. The specific amount of the down payment and interest rate shall be determined by the relevant banking institutions based on factors including the borrower's credit standing and repayment ability. In respect of working households that have contributed to the housing provident fund, when they use the housing provident fund loans to purchase a residential property as their first home, the minimum down payment shall be 20%. In respect of working households that have contributed to the housing provident fund and have already owned a residential property which is not subject to any outstanding mortgage, when they apply for the second time to use the housing provident fund loans to purchase a residential property as their second home to improve their living conditions, the minimum down payment shall be 30%. On August 27, 2015, the Ministry of Housing and Urban-Rural Development of the PRC, MOF and PBoC jointly promulgated the Circular on Revising the Percentage of the Minimum Down Payment for the Purchase of Residential Properties with Housing Provident Fund (《關於調整住房公積金個人住房貸款購房最低首付款比例的通知》). The Circular provides that, effective September 1, 2015, families owning a residential property with the corresponding housing loans fully repaid, when reapplying for the housing provident fund for the purchase of another residential property as their second home to improve their living conditions, are subject to a minimum down payment of 20% (reduced from 30%). According to the Notice on Issues Concerning the Further Improvement of Differential Housing Credit Policies (《關於進一步完善差別化住房信貸政策有關問題的通知》) issued by PBoC and CBRC on September 24, 2015, in cities where "purchase restrictions" have not been implemented, for households which apply for commercial individual housing loans for the purchase of their first housing, the minimum down payment is adjusted to not less than 25%.

- the Notice of MOF, NDRC, PBoC and CBRC on Implementing Several Matters relating to the Circular of the State Council on Relevant Issues Concerning Strengthening the Administration of Local Government Financing Vehicles (《財政部、國家發展和改革委員會、中國人民銀行、中國銀行業監督管理委員會關於貫徹〈國務院關於加強地方政府融資平台公司管理有關問題的通知〉相關事項的通知》), the Guiding Opinions of CBRC on Strengthening the Risk Management of Loans to Financing Vehicles (《中國銀監會關於加強融資平台貸款風險管理的指導意見》), the Notice of Further Implementation of Risk Control and Management of Local Government Financing Vehicles in 2011 (《關於切實做好2011年地方政府融資平台貸款風險監管工作的通知》) as well as the Guiding Opinions of CBRC on Strengthening the Risk Control and Management of Loans to Local Financing Vehicles in 2012 (《中國銀監會關於加強2012年地方政府融資平台貸款風險監管的指導意見》), which require that banking institutions strictly implement pre-lending investigation, examination at lending and post-lending inspection systems for loans to Local Government Financing Vehicles (the "LGFVs"), prudently grant loans to LGFVs and apply accurate classifications, and implement dynamic adjustment to reflect and assess accurately the risk profile of such loans. Banking institutions are also required to consider the indebtedness of local governments and the potential risks and expected losses of loans to LGFVs. The various regulations provide that the allowance for impairment losses is to be provided reasonably and the risk-weighting in calculating capital adequacy is to be determined by full coverage, basic coverage, semi-coverage and non-coverage of cash flow of such loans. The Guiding Opinions of CBRC on Strengthening the Risk Control and Management of Loans to Local Financing Vehicles in 2013 (《中國銀監會關於加強2013年地方政府融資平台貸款風險監管的指導意見》) require that each bank to impose aggregate loan limits on LGFVs and not to expand the scale of LGFVs, and also provide that, for the LGFVs with a cash flow coverage ratio lower than 100% or an asset-liability ratio higher than 80%, the proportion of their loans to total loans granted by the bank to vehicles should not exceed that of the previous year, and that the bank shall take measures to gradually reduce credit extension and actively collect such loans. Under the Opinions of the State Council on Strengthening the Administration of Local Government Debts (《國務院關於加強地方政府性債務管理的意見》), financial institutions shall not provide financing to or seek guarantee from local governments in violation of applicable laws or regulations. Purchasing of bonds issued by local governments by financial institutions shall be in compliance with regulatory requirements. When providing financing to governments or enterprises with debts, financial institutions shall strictly regulate credit management by enhancing risk identification and risk management. Financial institutions shall undertake any loss incurred as a result of providing financing to governments in violation of applicable laws or regulations while relevant authorities and person in charge will be held accountable for their acts under the PRC Commercial Bank Law, PRC Banking Supervision and Regulatory Law and other laws and regulations. The Circular on Properly Solving Subsequent Financing Issues of the on-going projects of Local Government Financing Vehicles issued by MOF, PBoC and CBRC (《財政部、人民銀行、銀監會關於妥善解決地方政府融資平台公司在建項目後續融資問題意見》) requires banking institutions to properly solve subsequent financing issues of the on-going projects of local government financing vehicles through separating management of existing customers and new customers and conducting financing in compliance with laws, to facilitate economic growth and control financial risks. Banking institutions shall support the existing financing needs of on-going projects of financing vehicles to ensure their orderly development in accordance with the principle of "controlling the total amount and exercising differentiated treatment". Banking institutions shall strictly regulate credit management and strengthen risk identification and risk control by taking into account both development and risk prevention. For loans to on-going projects of financing vehicles, banking institutions shall make their own decisions, take their own risk and optimize follow-up financing management based on prudent estimation of the repayment ability of financing vehicles, revenue from on-going projects of financing vehicles and the repayment ability of the local government. Banking institutions shall be cautious when reviewing loans and place their focus on supporting irrigation and water conservancy facilities, affordable housing projects, urban rail transit and other areas of on-going projects of financing vehicles to ensure that the loans are in line with industrial development needs and industrial park development plans.

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

- the Guidelines of Green Credit (《綠色信貸指引》), which requires banking institutions to support energy saving, emission reduction and environment protection, and avoid the environmental and social risks of their customers. Under these Guidelines, banking institutions are required to effectively identify, measure, monitor and control environmental and social risks in their credit business activities, and to establish relevant risk management systems. Banks are also required to explicitly determine the objectives of and the major industries to be supported by green credit, and to formulate specific guidelines for credit extensions to industries which are under strict regulation of the government and those with substantial environmental and social risks, carry out differential and dynamic credit extension policies, and implement risk exposure management systems.

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

Foreign Exchange Business

Commercial banks are required to obtain approvals from SAFE or its local branch to conduct the business of settlement and sales of foreign exchange, and are required to obtain approvals from CBRC or its local branch to conduct the business of foreign exchange other than settlement and sales of foreign exchange and new business in foreign exchange. Under the PRC's anti-money laundering laws and regulations, PRC financial institutions are required to report to the Anti-money Laundering Monitoring and Analysis Center any large or suspicious foreign exchange transactions which they encounter on a timely manner.

Securities and Asset Management Businesses

Commercial banks in the PRC are generally prohibited from trading and underwriting equity securities. Commercial banks in the PRC are permitted to:

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

Insurance Agency Business

Commercial banks in the PRC are not permitted to underwrite insurance policies, but are permitted to act as agents to sell insurance products through their distribution networks. Commercial banks that conduct agency sales of insurance products are required to comply with applicable rules issued by CIRC. The Notice on Further Strengthening Compliant Sales and Risk Management of Commercial Bank's Bancassurance Business (《中國銀行業監督管理委員會關於進一步加強商業銀行代理保險業務合規銷售與風險管理的通知》) issued by CBRC on November 1, 2010 provides that each outlet of a commercial bank may, in principle, cooperate with no more than three insurance companies to sell their insurance products. If the outlet cooperates with more than three insurance companies, the outlet must report to the local branch of CBRC. Pursuant to the Supervisory Guidance on the Insurance Agency Business of Commercial Banks (《商業銀行代理保險業務監管指引》) jointly issued by CIRC and CBRC on March 7, 2011, if a commercial bank operates an insurance agency business, each of its business outlets is required to obtain the requisite license issued by CIRC and authorization from the tier-one branch of the commercial bank before operating such business.

On January 8, 2014, CIRC and CBRC jointly issued the Notice Concerning Further Regulation of Agency Sales of Insurance Business Conducted by Commercial Banks (《中國保監會、中國銀監會關於進一步規範商業銀行代理保險業務銷售行為的通知》), which sets out certain specific requirements in respect of agency sales of insurance business conducted by commercial banks. For example, it requires commercial banks to assess the demands and risk tolerance of the policyholders, and recommend insurance products based on the assessment results. Each outlet of a commercial bank may cooperate with no more than three insurance companies (counted by the number of legal persons) in a fiscal year. In addition, the total premium received by a commercial bank from agency sales of accident insurance, health insurance, term life insurance, whole life insurance, annuity insurance with an insurance period of no less than 10 years, endowment insurance with an insurance period of no less than 10 years, property insurance (excluding investment insurance offered by property insurance companies), guarantee insurance and credit insurance shall be no less than 20% of the total premium of its insurance agency business.

Wealth Management

On September 24, 2005, CBRC issued the Interim Measures on Administration of the Wealth management Services of Commercial Banks (《商業銀行個人理財業務管理暫行辦法》), which requires commercial banks to obtain CBRC's approval to provide return-guaranteed wealth management plans, new investment products with guaranteed investment return under personal wealth management business and certain other personal wealth management businesses. For other personal wealth management services, commercial banks only need to file a report with CBRC or its local branch. Commercial banks are also subject to certain restrictions on personal wealth management products. Under the Guidelines for the Risk Management of the Wealth management Services of Commercial Banks (《商業銀行個人理財業務風險管理指引》) issued by CBRC on the same day, commercial banks are required to establish an analyzing, auditing and reporting system in respect of their wealth management services and to proactively communicate with the relevant authorities regarding major risk management approach, risk calculation methods and standards and other material risk management issues. To standardize and regulate the sales of wealth management products, CBRC issued the Administrative Measures on the Sales of Wealth Management Products of Commercial Banks (《商業銀行理財產品銷售管理辦法》) on August 28, 2011, which require commercial banks to prudently operate and disclose their wealth management business to fully protect the interests of consumers in a timely manner.

On July 6, 2009, CBRC issued the Notice on Further Regulation on the Administration of Investments under Retail Wealth Management Business (《中國銀監會關於進一步規範商業銀行個人理財業務投資管理有關問題的通知》), requiring certain conditions to be met for banks to invest the funds raised from issuing wealth management products into fixed income financial products, banks' credit assets, trust loans, portfolios of assets traded on public or non-public markets, financial derivatives or structured products, or collective trust fund plans. In addition, the notice prohibits the funds raised through wealth management products from being invested into equity securities publicly traded on domestic secondary markets or securities investment funds relating to such equity securities. Subscription of newly issued equity securities with funds raised through wealth management products is required to comply with PRC laws, regulations and regulatory requirements. Funds raised through wealth management products may not be invested into equity interests in unlisted enterprises or shares of listed companies that are not publicly offered or traded. However, the above restrictions do not apply to high-net-worth customers with relevant investment experiences and high risk tolerance levels, whose investment needs may be catered to by commercial banks through private banking services.

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

On July 10, 2014, CBRC issued the Notice on the Matters in relation to Streamlining of Wealth Management Business Structure and Management System of Commercial Banks (《關於完善銀行理財業務組織管理體系有關事項的通知》), which requires commercial banks to streamline their wealth management business structure and management system. Commercial banks are required to reform their independent audit, risk segregation, code of conduct and centralized management, and establish a specialized wealth management department responsible for the centralized management of wealth management business. The wealth management business of commercial banks shall comply with the relevant regulatory requirements of the banking industry.

Interbank Business

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

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

Upon the implementation of Circular 127 and Circular 140, we have been in compliance with the relevant requirements thereunder in operating our interbank business. The implementation of Circular 127 and Circular 140 has not resulted in any material adverse effect on our business operation or financial condition.

Electronic Banking

In January 2006, CBRC issued the Administrative Measures Regulating the Electronic Banking Business (《電子銀行業務管理辦法》) and Security Evaluation Guidelines on Electronic Banking (《電子銀行安全評估指引》) in an effort to enhance risk management and security standards in this sector. Banking institutions are allowed to engage in electronic banking business upon the approval of CBRC. All banking institutions applying to establish e-banking business are required to have sound risk management and internal control systems and are not permitted to have any major accidents relating to their primary information management and operations processing systems in the year immediately prior to the submission of their application. In addition, all banking institutions conducting e-banking business must adopt security measures to ensure the confidentiality of information and to prevent the unauthorized use of e-banking accounts.

CBRC issued the Notice on Enhancing the Management of Customer Information of Electronic Banking (《關於加強電子銀行客戶信息管理工作的通知》) on August 9, 2011, which stresses the importance of commercial banks to be committed to the work concerning the security and confidentiality of customer information. Without customers' authorization, commercial banks may not directly or indirectly provide customers' sensitive information to third-party organizations. A centralized electronic banking management department shall be specified by commercial banks for the electronic funds transfer and payment business in order to ensure the safe, stable and ongoing operations of the business.

Proprietary Investments

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

Financial Innovations

On December 5, 2006, CBRC issued the Guidelines on Financial Innovations of Commercial Banks (《商業銀行金融創新指引》), the purpose of which is to encourage PRC commercial banks to prudently engage in financial innovation-related activities, including developing new businesses and products and improving existing businesses and products, expanding their scope of business, enhancing cost efficiency and profitability, and reducing their reliance on lending business for profits. CBRC has indicated that it will streamline approval procedures for new financial businesses.

Internet Finance

On July 18, 2015, PBoC, CBRC, Ministry of Industry and Information Technology, and other authorities jointly issued the Guiding Opinions on Facilitating the Healthy Development of Internet Finance (《關於促進互聯網金融健康發展的指導意見》) to provide the following guidelines to promote the financial reform and innovation and the healthy development of Internet finance: (i) to encourage innovations and support the prudent development of internet finance; (ii) to specify the supervisory responsibilities of different Internet finance activities; (iii) to establish a sound system to regulate the Internet finance market.

Certificates of Deposit

On June, 2, 2015, PBoC promulgated the Provisional Measures on Management of Certificates of Deposit (《大額存單管理暫行辦法》) to standardize and regulate the development of certificates of deposit business, expand the market pricing range of liabilities products issued by deposit-taking financial institutions and promote the reform of liberalization of interest rates in an orderly manner. A self-regulated pricing system shall be developed by banks to determine the interest rates of certificates of deposit based on market conditions and the relevant rules. PBoC also promulgated the Implementation Provisions of Management of Certificates of Deposit (《大額存單管理實施細則》) on June 2, 2015, which requires deposit-taking financial institutions (the "Issuer") to fulfill the following conditions: (i) the Issuer is a member of national self-regulating pricing system; (ii) the Issuer has formulated the administrative measures for certificates of deposit and established a management system for certificates of deposit business; (iii) such other requirements as promulgated by PBoC. Deposit-taking financial institutions shall submit an annual issuance plan to PBoC before the issuance of the first certificate of deposit every year. If there is change to the issuance plan, the deposit-taking financial institutions shall file the same with PBoC. The Issuer shall register with the National Interbank Funding Center in respect of the issuance amount of the year, which shall be consistent with the amount stated in the annual issuance plan submitted to PBoC. The proposed issuance amount for a certain period shall not exceed the annual approved amount. Certificates of deposit can be used for pledge business, including but not limited to loans secured by pledges and financing secured by pledges. Interest rates on certificates of deposit shall be determined by the market. Fixed interest rate is calculated by using the annualized return rate while floating interest rate is calculated based on SHIBOR.

PRICING OF PRODUCTS AND SERVICES

Interest Rates for Loans and Deposits

Interest rates for RMB-denominated loans and deposits were historically set by PBoC. In accordance with the PRC Commercial Banking Law, each commercial bank is required to determine both its loan rate within the maximum and minimum loan rate limits and its deposit rate within the maximum and minimum deposit rate limits, in each case, as set by PBoC. In recent years, PBoC has gradually liberalized its regulation of interest rates, allowing banks more flexibility to determine the interest rates for RMB-denominated loans and deposits. Effective July 20, 2013, interest rate for RMB-denominated loans (except for personal residential housing loans) can be determined by commercial banks at their own discretion. Effective October 24, 2015, commercial banks in China may set interest rates for deposits based on commercial considerations. The evolution of the interest rate regulation in China is summarized below.

From March 17, 2005 to August 18, 2006, interest rates for personal residential mortgage loans were regulated in the same way as most other types of loans. On August 19, 2006, the minimum interest rate for personal residential mortgage loans was adjusted to 85% of the PBoC benchmark lending rate. On October 27, 2008, the minimum interest rate for personal residential mortgage loans was adjusted to 70% of the PBoC benchmark lending rate. On April 17, 2010, the minimum interest rates for the personal residential mortgage loans to second-time home buyers in China was adjusted to 110% of the PBoC benchmark lending rate. Effective July 20, 2013, PBoC removed the minimum interest rate requirement for new loans provided by commercial banks, whereas the minimum interest rates for new personal residential mortgage loans remained at 70% of the PBoC benchmark lending rates. On September 29, 2014, PBoC and CBRC announced that the policies for first-time home buyers should apply if a family already owned a residence, had fully repaid the relevant loan, and applied for a loan to purchase another ordinary commercial residence to improve its living condition.

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

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

The table below sets out the PBoC benchmark rates for RMB-denominated loans since 2011.

Date of adjustment	Six months or less	Over six months up to one year	Over one year up to three years	Over three years up to five years	Over five years	Housing fund loans: Up to five years	Housing fund loans: Over five years
	(interest rate per annum %)						
February 9, 2011	5.60	6.06	6.10	6.45	6.60	4.00	4.50
April 6, 2011	5.85	6.31	6.40	6.65	6.80	4.20	4.70
July 7, 2011	6.10	6.56	6.65	6.90	7.05	4.45	4.90
June 8, 2012	5.85	6.31	6.40	6.65	6.80	4.20	4.70
July 6, 2012	5.60	6.00	6.15	6.40	6.55	4.00	4.50
November 22, 2014	5.60	5.60	6.00	6.00	6.15	3.75	4.25
March 1, 2015	5.35	5.35	5.75	5.75	5.90	3.50	4.00
May 11, 2015	5.10	5.10	5.50	5.50	5.65	3.25	3.75
June 28, 2015	4.85	4.85	5.25	5.25	5.40	3.00	3.50
August 26, 2015	4.60	4.60	5.00	5.00	5.15	2.75	3.25
October 24, 2015	4.35	4.35	4.75	4.75	4.90	2.75	3.25

Source: PBoC

The table below sets out the PBoC benchmark rates for RMB-denominated deposits since 2011.

Date of adjustment	Demand deposits	Time deposits: Three months	Time deposits: Six months	Time deposits: One year	Time deposits: Two years	Time deposits: Three years	Time deposits: Five years
	(interest rate per annum %)						
February 9, 2011	0.40	2.60	2.80	3.00	3.90	4.50	5.00
April 6, 2011	0.50	2.85	3.05	3.25	4.15	4.75	5.25
July 7, 2011	0.50	3.10	3.30	3.50	4.40	5.00	5.50
June 8, 2012	0.40	2.85	3.05	3.25	4.10	4.65	5.10
July 6, 2012	0.35	2.60	2.80	3.00	3.75	4.25	4.75
November 22, 2014	0.35	2.35	2.55	2.75	3.35	4.00	N/A(1)
March 1, 2015	0.35	2.10	2.30	2.50	3.10	3.75	N/A(1)
May 11, 2015	0.35	1.85	2.05	2.25	2.85	3.50	N/A(1)
June 28, 2015	0.35	1.60	1.80	2.00	2.60	3.25	N/A(1)
August 26, 2015	0.35	1.35	1.55	1.75	2.35	3.00	N/A(1)
October 24, 2015	0.35	1.10	1.30	1.50	2.10	2.75	N/A(1)

Source: PBoC

(1) With effect from November 22, 2014, PBoC no longer publishes the benchmark interest rate on RMB-denominated deposits for a tenor of five years.

Currently, commercial banks are permitted to negotiate and determine the interest rates on foreign currency-denominated loans and deposits.

According to the Notice of the People's Bank of China on Further Promoting the Liberalization of Interest Rate (《中國人民銀行關於進一步推進利率市場化改革的通知》) announced by PBoC in July 2013, since July 20, 2013, commercial banks are permitted to determine the discount rate for their discount bills.

Pricing for Fee- and Commission-based Products and Services

CBRC, PBoC and NDRC jointly issued the Notice on the Waiver of Some Service Charges of Banking Institutions (《關於銀行業金融機構免除部分服務收費的通知》) on March 9, 2011, which requires banking institutions to waive certain charging items in relation to RMB personal accounts starting from

July 1, 2011. In an effort to further regulate banking institutions' charging items, on January 20, 2012, CBRC issued the Notice on Rectifying the Irregular Operations of Banking Financial Institutions (《關於整治銀行業金融機構不規範經營的通知》), which sets out certain prohibited operations in relation to charging items for banking institutions' credit business and enhances the transparency of pricing. Under the Administrative Measures on Pricing of Commercial Banking Services (《商業銀行服務價格管理辦法》) jointly issued by CBRC and NDRC on February 14, 2014, other than those services the pricing for which are guided or determined by the government, commercial banks' services are priced based on market conditions. In the event that the commercial bank increases the service fees or sets new service fees based on market conditions, the bank is required to make public such fees at least three months prior to the implementation of such new fees in accordance with the Administrative Measures on Pricing of Commercial Banking Services.

REQUIRED DEPOSIT RESERVE

Commercial banks are required to maintain a percentage of their total deposits as reserves with PBoC to ensure they have sufficient liquidity to meet customer withdrawals. As of the Latest Practicable Date, City Commercial Banks are generally required to maintain a deposit reserve of not less than 15.0% of their total outstanding Renminbi deposits according to the relevant requirements of PBoC.

The following table sets forth the historical RMB statutory deposit reserve ratios applicable to our Bank since 2011. Throughout the Track Record Period, we have complied with the relevant requirements of PBoC.

Date of adjustment	Statutory deposit reserve ratios (%)
January 20, 2011	17.0
February 24, 2011	17.5
March 25, 2011	18.0
April 21, 2011	18.5
May 18, 2011	19.0
June 20, 2011	19.5
December 5, 2011	19.0
February 24, 2012	18.5
May 18, 2012	18.0
February 5, 2015	17.5
April 20, 2015	16.5
September 6, 2015	16.0
October 24, 2015	15.0

Source: PBoC

SUPERVISION OVER CAPITAL ADEQUACY

Latest CBRC Supervisory Standards Over Capital Adequacy

Prior to March 1, 2004, commercial banks were required to maintain a minimum capital adequacy ratio of 8% and a minimum core capital adequacy ratio of 4%.

On February 23, 2004, CBRC issued the Capital Adequacy Measures which became effective on March 1, 2004 and was amended on July 3, 2007. We were required to comply with the Capital Adequacy Measures before January 1, 2013. The Capital Adequacy Measures required commercial banks to maintain a minimum capital adequacy ratio of 8% and a minimum core capital adequacy ratio of 4%. In addition, the Capital Adequacy Measures required commercial banks to make adequate provisions for various impairment losses, including those associated with loans, before calculating their capital adequacy ratios.

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

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

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

In the above formulae:

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

Risk-weighted assets	Refer to the assets calculated by multiplying the value of on- and off-balance-sheet assets by their corresponding risk weightings, after taking into account risk-mitigating factors.
Market risk capital	Refers to the capital that a bank is required to provide for the market risks relating to its assets. Commercial banks with total trading book positions greater than 10% of the bank's total on- and off-balance sheet assets or over RMB8,500 million are required to make provisions for market risk capital.

On June 7, 2012, CBRC announced the Capital Administrative Measures, which have been in effect since January 1, 2013. The Capital Administrative Measures required commercial banks to maintain a minimum core tier-one capital adequacy ratio of 5% and a minimum tier-one capital adequacy ratio of 6% and a minimum capital adequacy ratio of 8%. The Capital Administrative Measure amended the risk weighting of various assets and adjusted the components of capital. In addition, the Capital Administrative Measures require commercial banks to make adequate provision for various impairment losses, including those associated with loans, before calculating their capital adequacy ratios. These changes resulted in a more stringent capital adequacy requirement.

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

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

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

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

In the preceding formulae:

Total Capital	Includes core tier-one capital, other tier-one capital and tier-two capital.
Tier-one Capital	Includes both core tier-one capital and other tier-one capital.
Core Tier-one Capital	Includes paid-in capital or common shares, capital reserve, surplus reserve, general reserve, retained earnings and applicable portions of minority shareholders' capital that may be included.
Other Tier-one Capital	Includes both other tier-one capital instrument as well as its premium and applicable portions of minority shareholders' capital that may be included.
Tier-two	Includes both tier-two capital instrument as well as its premium, excess allowance for loss and portions of minority shareholders' capital that may be included.

Corresponding capital deductions	Items that should be deducted correspondingly when commercial banks calculate the capital adequacy ratio at each tier.
Risk-weighted assets	Includes credit risk-weighted assets, market risk-weighted assets and operational risk-weighted assets. Commercial banks may adopt the weighted method or the internal ratings-based approach to measure credit risk-weighted assets.

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

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

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

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

Items	Risk weightings
e. Claims on financial institutions and public-sector entities incorporated in other countries or jurisdictions	
i. Claims on commercial banks or public-sector entities where the ratings for such countries or jurisdictions are AA- (including AA-) or higher(1)	25%
ii. Claims on commercial banks or public-sector entities where the ratings for such countries or jurisdictions are between AA- and A- (including A-)(1)	50%
iii. Claims on commercial banks or public-sector entities where the ratings for such countries or jurisdictions are between A- and B- (including B-)(1)	100%
iv. Claims on commercial banks or public-sector entities where the ratings for such countries or jurisdictions are below B-(1)	150%
v. Claims on commercial banks or public-sector entities without ratings for such countries or jurisdictions	100%
vi. Claims on multilateral development banks, the Bank of International Settlement and the International Monetary Fund	0%
vii. Claims on other financial institutions	100%
f. Claims on ordinary enterprises	100%
g. Claims on qualified small and micro enterprises	75%
h. Claims on individuals	
i. Residential mortgage loans	50%
ii. The supplementary part of a supplementary financial facility secured by the reevaluated net value of a mortgaged residence before the purchaser has paid up all the loans	150%
iii. Other claims on individuals	75%
i. The balance of rental assets	100%
j. Equity	
i. Equity investments in financial institutions (part not deducted)	250%
ii. Passive equity investments in business enterprises	400%
iii. Equity investment in business enterprises for policy reasons upon the extraordinary approval of the State Council	400%
iv. Other equity investments in business enterprises	1250%
k. Real estate not for own use	
i. Real estate not for own use, obtained by practicing mortgage rights within the lawful disposition period	100%
ii. Other real estate not for own use	1250%
l. Other assets	
i. Net deferred tax assets in reliance on the bank's future profit (part not deducted)	250%
ii. Other assets on balance sheet	100%

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

Regulatory Requirements in respect of Capital Adequacy Ratios

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

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

- capital adequacy ratio shall not be lower than 8%;
- tier-one capital adequacy ratio shall not be lower than 6%; and
- core tier-one capital adequacy ratio shall not be lower than 5%.

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

In addition, the systematically important banks in the PRC are required to calculate and set aside additional capital in an amount equal to 1% of their risk-weighted assets, which is to be fulfilled by core tier-one capital. If a PRC bank is recognized as a global systematically important bank, the additional capital requirement applicable to it cannot be less strict than those requirements generally provided for by the Basel Committee on Banking Supervision. As of the Latest Practicable Date, the PRC regulator had issued no standards for determining, and no list of, such systematically important banks.

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

- specific capital requirements in respect of certain asset portfolios on the basis of risk assessment; and
- specific capital requirements on an individual bank according to the results of supervisory inspections.

Time Limit for Meeting the Requirements

The Capital Administrative Measures provide that commercial banks are required to meet the regulatory requirements on capital adequacy ratios as set forth in those measures by the end of 2018, and commercial banks are encouraged to meet the requirements ahead of schedule. In accordance with the Notice Regarding the Arrangement of Transition Period of Implementation of the Administrative Measures for the Capital of Commercial Banks (Trial), the core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio of such banks other than systematically important banks are required to be no lower than 7.5%, 8.5% and 10.5% respectively by the end of 2018. We had met the aforesaid capital adequacy ratio requirement while our capital adequacy ratio during the transitional period shall maintain the above-mentioned required level according to relevant requirements as indicated by the banking regulatory authorities.

In addition, if the regulatory authorities require commercial banks to set up countercyclical capital buffer requirements or impose capital requirements on an individual bank under the second pillar, commercial banks subject to such additional requirements are required to meet the relevant deadlines.

Issuance of Capital Instruments to Replenish Capital

On June 17, 2004, PBoC and CBRC jointly issued the Measures for Administration on Issuance of Subordinated Bonds of Commercial Banks (《商業銀行次級債券發行管理辦法》), pursuant to which PRC commercial banks are permitted to issue bonds which are subordinated to the banks' other liabilities but are senior to the banks' equity capital. Upon approval by CBRC, PRC commercial banks may include such subordinated bonds in their supplementary capital.

On June 7, 2012, CBRC issued the Capital Administrative Measures which redefined the capital of a commercial bank from core capital and supplementary capital under the Capital Adequacy Measures to core tier-one capital, other tier-one capital and tier-two capital. Also, the Capital Administrative Measures proposed the concept and criteria for inclusion of tier-two capital instruments, which differ from that of subordinated debt, subordinated bonds and hybrid capital bonds. Pursuant to the Capital Administrative Measures, unqualified tier-two capital instruments issued by a commercial bank before September 12, 2010 may be included in regulatory capital before January 1, 2013, but, from January 1, 2013, such instruments are to be decreased by 10% each year and, from January 1, 2022, such instruments are no longer allowed to be included in regulatory capital. For a tier-two capital instrument issued by a commercial bank between September 12, 2010 and January 1, 2013, if the instrument has no write-down or share conversion clause but meets the other criteria for inclusion of the relevant capital instruments, it may be included in regulatory capital before January 1, 2013, but, from January 1, 2013, such instruments are to be decreased by 10% each year and, from January 1, 2022, such instruments are no longer allowed to be included in regulatory capital.

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

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

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

CBRC's Supervision of Capital Adequacy

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

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

Categories	Capital adequacy	CBRC actions
Grade I	Commercial banks which meet all the capital requirements for capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio.	● to require the commercial bank to improve the analysis and forecast of the reasons for the decrease of its capital adequacy ratios; ● to require the commercial bank to formulate a practicable capital adequacy ratio management plan; and ● to require the commercial bank to improve its risk control capability.
Grade II	Commercial banks which fail to meet the second pillar capital requirements but meet all other capital requirements for capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio.	● to adopt the regulatory measures for Grade I banks; ● to hold talks on prudent practice with the board of directors and the senior management of the commercial bank; ● to issue a regulatory opinion, which must include the problems identified with the capital management of the commercial bank, the proposed measures for rectification and the opinion on meeting the requirements within the prescribed time limit; ● to require the commercial bank to formulate a practicable capital replenishment plan and the plan for meeting the requirements within the prescribed time limit; ● to increase the frequency of supervision and inspection of the capital adequacy of the commercial bank; and ● to require the commercial bank to take risk-mitigation measures for specific risk areas.

Categories	Capital adequacy	CBRC actions
Grade III . . .	Commercial banks which meet all the minimum capital requirements for capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio but fail to meet other capital requirements.	• to adopt the regulatory measures for Grades I and II banks; • to restrict the commercial bank from distributing dividends and other income; • to restrict the commercial bank from granting any form of incentives to directors and senior management; • to restrict the commercial bank from making equity investments or repurchasing capital instruments; • to restrict the commercial bank from incurring major capital expenditure; and • to require the commercial bank to control the growth of risky assets.
Grade IV . . .	Commercial banks which fail to meet the minimum capital requirement for any of capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio.	• to adopt the regulatory measures for Grade I, II and III banks; • to require the commercial bank to significantly downsize risky assets; • to order the commercial bank to suspend all high-risk asset businesses; • to restrict or prohibit the commercial bank from establishing new institutions or launching new businesses; • to require the commercial bank to write down tier-two capital instruments or convert them into ordinary shares; • to order the commercial bank to change its directors or senior management or restrict their rights; • to lawfully take over the commercial bank or procure the institutional reorganization of, or even dissolve, the commercial bank; and • to consider other external factors and take other necessary measures in order to solve the problems faced by Grade IV commercial banks.

Introduction of the New Leverage Requirements

On January 30, 2015, CBRC issued the revised Administrative Measures on the Leverage Ratio of Commercial Banks (《商業銀行槓桿率管理辦法》) (the "Current Practice of Leverage Ratios") which came into effect on April 1, 2015. This requires commercial banks to maintain a leverage ratio not lower than 4% irrespective of whether the financial statements are consolidated or not. The formula for calculating the leverage ratio is as follows:

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

Commercial banks are required to report to CBRC and its local offices their consolidated leverage ratios on a semi-annual basis and their unconsolidated leverage ratios on a quarterly basis. For a commercial bank which fails to meet the minimum leverage ratio, CBRC and its local offices may take disciplinary actions, including requiring the commercial bank to: (i) supplement its tier-one capital within a specified period; (ii) control the growth of its on- and off-balance sheet assets; and (iii) reduce the size of its on- and off-balance sheet assets. If the commercial bank fails to remediate its non-compliance within the specified period, or its behavior has seriously endangered its sound operation or jeopardized the legitimate interests of depositors or other customers, CBRC and its local offices may take the following actions pursuant to the PRC Banking Supervision and Regulatory Law at their discretion, including: (i) ordering the commercial bank to suspend certain business and withhold approval for the commencement of new business; (ii) restrict the distribution of dividends and other incomes; (iii) withhold approval for the establishment of new branches; (iv) order the controlling shareholders to transfer interest or restrict their rights; (v) ordering restructuring of the board of directors or senior management or imposing restrictions on their rights; and (vi) other actions as permitted by laws. In addition to the above measures, CBRC may also impose an administrative penalty on the commercial bank.

The above measures also provide that systematically important banks are required to meet the minimum requirements before April 1, 2015 when the Administrative Measures becomes effective, while non-systematically important banks are required to meet such requirements before the end of 2016. We have met the standards as required by such Administrative Measures.

Basel Accords

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

On February 23, 2004, CBRC promulgated the Capital Adequacy Measures, which was amended on July 3, 2007. CBRC has advised that the Capital Adequacy Measures are based on Basel I, while also taking into consideration certain aspects of Basel II. In March 2009, China officially joined the Basel Committee and participated in the establishment of international standards for banking supervision, which is conducive to the upgrading of supervision techniques and supervision levels in China's banking industry.

In line with the reform of Basel Accords and the implementation of Basel III, on April 22, 2011, CBRC promulgated the Guiding Opinions on the Implementation of New Regulatory Standards in China's Banking Industry (《中國銀行業監督管理委員會關於中國銀行業實施新監管標準的指導意見》), which set out the key targets and principles for the reform of China's capital regulatory framework. On June 1, 2011, CBRC promulgated the Administrative Measures on the Leverage Ratio of Commercial Banks (《商業銀行槓桿率管理辦法》). On June 7, 2012, CBRC issued the Capital Administrative Measures. The Capital Administrative Measures came into effect on January 1, 2013 and superseded the Capital Adequacy Measures. On July 19, 2013, CBRC issued the following four policy documents to complement the Capital Administrative Measures: the Measurement Rules for Risk Exposure Capital of Central Counterparties (《中央交易對手風險暴露資本計量規則》); the Supervisory Requirements Concerning Information Disclosure on the Capital Composition of Commercial Banks (《關於商業銀行資本構成信息披露的監管要求》); the Supplemental Supervisory Requirements Concerning the Implementation of Internal Ratings-based Approach by Commercial Banks (《關於商業銀行實施內部評級法的補充監管要求》); and the Questions and Answers Regarding the Capital Supervisory Policy (《資本監管政策問答》) in an effort to enhance the effectiveness of capital supervision, improve the risk management of commercial banks and strengthen the regulation functions of market forces.

In January 2013, the Basel Committee issued the Third Basel Accords on Liquidity Coverage Ratio and the Liquidity Risk Monitoring Standard (《第三版巴塞爾協議流動性覆蓋率和流動性風險監測標準》). On January 17, 2014, CBRC promulgated the Administrative Measures on the Liquidity Risk of Commercial Banks (Trial) (《商業銀行流動性風險管理辦法(試行)》) to amend the liquidity regulatory requirements. On September 2, 2015, CBRC issued the Administrative Measures on the Liquidity Risk of Commercial Banks (Provisional) (《商業銀行流動性風險管理辦法(試行)》), which came into effect on October 1, 2015 and provides that the loan-to-deposit ratio will cease to be the regulatory indicator of liquidity risk control and management and the requirement that the loan-to-deposit ratio must not exceed 75% was cancelled. In January 2014, the Basel Committee promulgated Basel III Accords on Leverage Ratio Framework and Disclosure Requirement (《第三版巴塞爾協議槓桿率框架和披露要求》) to amend the international standards for leverage ratio. CBRC promulgated the Current Practice of Leverage Ratios to amend the Measures for Management of Leverage Ratios of Commercial Banks promulgated in June 1, 2011 according to the Basel

Committee's new regulations on leverage ratio in 2015 to implement a more specific and stringent requirements for the disclosure of leverage ratios of commercial banks.

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

In May 2011, CBRC issued the Notice on Supporting Commercial Banks to Further Improve the Financial Services Offered to Small Enterprises (《中國銀監會關於支持商業銀行進一步改進小企業金融服務的通知》), which provides that CBRC will prioritize its support for commercial banks with the outstanding loans to small enterprises reaching a certain proportion of its total outstanding loans to enterprises, when fulfilling the prudent regulatory requirements, to have the priority to support the financial bonds they issued specifically for loans to small businesses. On October 24, 2011, CBRC issued the Supplementary Notice on Supporting Commercial Banks to Further Improve the Financing Services Offered to Small and micro businesses (《中國銀監會關於支持商業銀行進一步改進小型微型企業金融服務的補充通知》), which sets out further provisions for the issuance of special financial bonds for small and micro business loans by commercial banks.

LOAN CLASSIFICATION, ALLOWANCES AND WRITE-OFFS

Loan Classification

On July 3, 2007, CBRC issued the Guidelines of Risk-based Classification of Loans (《貸款風險分類指引》), which requires banks in the PRC to classify loans under a five-category loan classification system to estimate the likelihood of full repayment of principal and interest by debtors on time. The five categories are "normal", "special mention", "substandard", "doubtful" and "loss". The primary factors for evaluating the likelihood of repayment include the borrower's cash flow, financial conditions and other non-financial conditions affecting the ability of repayment.

Loan Loss Allowance

According to the Guidelines of Risk-based Classification of Loans, a loan classified as substandard, doubtful or loss is considered to be non-performing, and commercial banks are required to make allowance based on a reasonable estimate of the probable loss on a prudent and timely basis.

On April 2, 2002, CBRC promulgated the Guidelines on Bank Loan Loss Allowance (《銀行貸款損失準備計提指引》), which requires the allowance for impairment losses consists of a general allowance, a specific allowance and a special allowance. General allowance refers to the allowance for all unidentified but possible losses, which are made based on certain percentages of the balance of total outstanding loans; specific allowance refers to the allowance made for specific losses in connection with an individual loan based on its categorization under the Guiding Principles on Risk Classification of Loans (《貸款風險分類指導原則》); and special allowance refers to the allowance made for the risks specifically related to certain countries, regions, industries, or certain types of loans. Commercial banks should make a general allowance on a quarterly basis and to have a general allowance of not less than 1% of the total loans outstanding as of the end of the year. The guidelines provide additional guidance on the proportion of specific allowance for each loan category: 2% for special mention loans; 25% for substandard loans; 50% for doubtful loans and 100% for loss loans. Allowance for losses of substandard and doubtful loans may be set aside within a floating range of 20%. Commercial banks may make special allowance on a quarterly basis on its own in accordance with special risk factors (including risks in association with certain industries and countries), probability of losses and historical experience.

On July 27, 2011, CBRC issued the Administrative Measures for Loan Loss Allowance of Commercial Banks (《商業銀行貸款損失準備管理辦法》), which requires the regulatory authorities of the banking industry to establish the loan provision ratio and provision coverage ratio to assess the adequacy of loan loss allowance of commercial banks, the benchmarks of which are 2.5% and 150%, respectively. The higher of the two ratios will be taken to be the supervisory standard. The boards of directors of commercial banks are required to assume ultimate responsibility for the management of loan loss allowance. Systematically important banks are required to reach the standard before the end of 2013. Non-systematically important banks are required to reach such standard before the end of 2016 and those failing to reach the standard before the end of 2016 are required to formulate a plan on how to reach such standard and submit the same to CBRC and reach such standard by the end of 2018 at the latest.

CBRC's Supervision of Loan Classification and Loan Loss Allowance

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

Loan Write-offs

Under the regulations issued by CBRC, PBoC and MOF, commercial banks are required to establish a strict audit and approval process to write off loan losses. In order to be written off, a loan needs to meet the standards set by MOF. Losses realized when writing off loans are deductible for tax purposes, but such deduction shall be examined and approved by the tax authorities.

Bulk Transfer of Non-performing Assets

Pursuant to the Administrative Measures for Bulk Transfer of Non-performing Assets of Financial Enterprises (《金融企業不良資產批量轉讓管理辦法》) issued by MOF and CBRC on January 18, 2012, financial enterprises may carry out bulk transfer of their non-performing credit assets and non-credit assets generated from their business operations, including loans in the substandard, doubtful and loss categories recognized according to statutory processes and standards; written-off book assets; assets for the offsetting of debt and other non-performing assets.

Allowance and Statutory General Reserve for Impairment Losses

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

DEPOSIT DEVIATION AND DEPOSIT INSURANCE SYSTEM

Deposit Deviation

On September 11, 2014, the General Office of the CBRC, General Office of MOF and General Office of PBoC jointly issued the Notice on Issues Concerning Strengthening Management of Deposit Deviation of Commercial Banks (《關於加強商業銀行存款偏離度管理有關事項的通知》). A deposit deviation indicator is set up to prevent banks from "scrambling to meet regulatory deposit level" and prevent and mitigate risks. Commercial banks are not allowed to increase their deposits through illegal and fraudulent methods such as attracting deposits by high interest rates, illegally attracting deposits through offering kickbacks, attracting deposits through third-party intermediary agencies, delaying payment, converting loans into deposits, converting loans into bills, deposits through wealth management products and interbank business. In addition, commercial banks shall enhance the stability of deposits and refrain from "scrambling to meet regulatory deposit level" at the end of a month. The deposits at the end of each month shall not be higher or lower than the monthly average by more than 3%. CBRC and its branches shall monitor the daily statistics and the fluctuation of deposits of commercial banks and shall impose corresponding rectifications and penalties according to severity.

Deposit Insurance System

Pursuant to the Regulations on Deposit Insurance by the State Council which came into effect on May 1, 2015, deposit-taking banking institutions established in the PRC including commercial banks, rural commercial banks and rural credit cooperatives (which are referred as the "Insured Institution", except for branches established by the Insured Institution outside PRC and branches established by foreign banks in the PRC) shall insure their deposits as required. Insured deposits include deposits denominated in both Renminbi and foreign currencies of the Insured Institutions, except for interbank deposits of financial institutions, deposits of senior management of the Insured Institutions and other deposits which cannot be insured in accordance with the requirements of deposit insurance management authority. The maximum compensation per depositor is currently RMB500,000. PBoC and the relevant departments of the State Council may adjust the amount according to factors such as the economy, changes in deposit structure and financial risk upon the approval of the State Council. Deposits protected under the scheme, including principal and interest, of the same depositor in a same Insured Institution within the cap will receive full compensation. Any excess shall be recovered from the liquidation assets of the Insured Institution. The Insured Institution shall pay insurance premium every six months in accordance with the requirements of deposit insurance management authority. The deposit insurance fund shall only be (i) deposited with PBoC; (ii) invested in government bonds, central bank notes, high-rated financial bonds and other high-rated bonds; and (iii) used in other forms approved by the State Council.

OTHER OPERATIONAL AND RISK MANAGEMENT RATIOS

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

The table below sets out our ratios as of December 31, 2012, 2013 and 2014 and June 30, 2015, calculated in accordance with the required ratios as provided in the Core Indicators (Trial), other relevant regulatory requirements and applicable accounting standards. For details on our capital adequacy ratio, please see "Financial Information—Capital Resources—Capital Adequacy".

Risk level	Primary indicators	Secondary indicators	Requirement	As of or for the year ended December 31,			As of or for the six months ended June 30,
				2012	2013	2014	2015
			(%)				
Risk Level							
Liquidity risk	Liquidity ratio(1)	RMB	≥25	49.70	41.04	—	—
		Foreign currency		92.44	110.53	—	—
		Domestic and foreign currency		—	—	45.57	46.97
	Core liabilities ratio(2)		≥60	55.46	52.46	—	—
	Liquidity gap ratio(3)		≥(10)	1.78	(17.94)	—	—
	Loan-to-deposit ratio(4)		≤75	59.57	56.79	55.54	63.16
Credit risk	Non-performing asset ratio(5)		≤4	0.36	0.34	0.60	0.63
		Non-performing loan ratio(6)	≤5	0.76	0.75	1.14	1.19
	Credit exposure to a single group customer(7)		≤15	6.93	7.49	11.32	8.92
		Loan concentration to a single customer(8)	≤10	4.98	5.87	6.16	6.33
	Total credit exposure to Related Parties(9)		≤50	6.02	3.56	8.14	1.52
Market risk	Cumulative foreign currency exposure ratio(10)		≤20	1.98	1.58	1.92	2.04
Risk Cushion							
Profitability	Cost-to-income ratio(11)		≤45	41.57	41.06	39.61	25.14(14)
	Return on assets(12)		≥0.6	1.03	0.96	1.02	1.32(14)
	Return on equity(13)		≥11	12.78	14.60	16.62	19.62(14)
Allowance Adequacy	Allowance adequacy ratio for asset losses(15)		>100	471.41	643.63	328.96	—
		Allowance adequacy ratio for loan losses(16)	>100	472.90	648.60	329.94	—

Calculated as follows:

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

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

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

(4) Loan-to-deposit ratio = loans/deposits x 100%. On June 30, 2014, CBRC released the Notice on Adjusting the Calculation of Loan-to-Deposit Ratio for Commercial Banks (《中國銀監會關於調整商業銀行存貸比計算口徑的通知》) to adjust the rules for calculating the loan-to-deposit ratio beginning from July 1, 2014. On August 29, 2015, the Standing Committee of the NPC promulgated the Decision of the Standing Committee of the National People's Congress on Amending the Commercial Banking Law of the People's Republic of China (《全國人民代表大會常務委員會關於修改〈中華人民共和國商業銀行法〉的決定》) (the "Decision"). According to the Decision, with effect from October 1, 2015, the maximum loan-to-deposit ratio of 75% stipulated under the PRC Commercial Banking Law was revoked and relevant provisions on the penalties for non-compliance with the aforementioned loan-to-deposit ratio imposed by the banking regulatory authorities of the State Council were also abolished.

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

(6) Non-performing loan ratio = (substandard loans + doubtful loans + loss loans)/ total loans x 100%. Loans are classified into five categories in accordance with the Guidelines on Risk-based Classification of Loans and relevant regulations. Loans refer to assets financed by the banking financial institutions to borrowers in the form of monetary fund, which mainly include loans, trade finance, bill financing, financial leasing, assets acquired from non-financial institutions under resale agreements, overdrafts and all kinds of advances.

(7) Credit exposure to a single group customer = total credit granted to the largest group customer/net capital x 100%. Largest group customer refers to the single group customer granted with the highest credit limit at the end of the relevant period.

(8) Loan exposure to a single customer = total loans to the largest customer/net capital x 100%. Largest customer refers to the customer with the highest balance of loans at the end of the relevant period.

(9) Total credit exposure to Related Parties = total granted credit limit to all Related Parties/net capital x 100%. Related Parties refer to parties defined under the Administrative Measures on Related Party Transactions with Insiders and Shareholders of Commercial Banks (《商業銀行與內部人和股東關聯交易管理辦法》) and relevant regulations. Total granted credit limit to all Related Parties refers to total credit balance granted to such parties minus the total security deposit from the Related Parties and bank deposits and PRC government bonds pledged.

(10) Cumulative foreign currency exposure ratio = balance of cumulative foreign currency exposure/net capital x 100%. Cumulative foreign currency exposure refers to exchange rate-sensitive foreign currency assets minus exchange rate-sensitive foreign currency liabilities.

(11) Cost-to-income ratio = (operating expenses – business taxes and surcharges)/operating income x 100%.

(12) Return on assets = net profit/average balance of total assets at the beginning and the end of the period x 100%.

(13) Return on equity = net profit/average balance of shareholders' equity at the beginning and the end of the period for the period x 100%.

(14) On an annualized basis.

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

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

In addition, the Core Indicators (Trial) sets out guidance on other ratios, including ratios relating to interest rate sensitivity, operational risk and loan migration but without detailed instructions. CBRC may formulate regulatory requirements regarding these ratios in the future.

As of December 31, 2012 and December 31, 2013, our core liabilities ratio was 55.46% and 52.46%, which did not meet the relevant core liabilities ratio requirement under the Core Indicators (Trial). Our liquidity gap ratio as of December 31, 2013 was -17.94%, which did not meet the liquidity gap ratio requirement under the Core Indicators (Trial). As advised by King & Wood Mallesons, our PRC legal advisor, the Core Indicators (Trial) have not set out any penalties for non-compliance of the required core liabilities ratio and liquidity gap ratio. As set forth in the Core Indicators (Trial), the core indicators do not constitute the direct basis for administrative penalties, unless otherwise specified in laws, administrative regulations and regulatory rules. In addition, failing to satisfy these two ratios does not necessarily lead to any direct and material liquidity risks. Pursuant to the Administrative Measures on the Liquidity Risk of Commercial Banks (Trial) (《商業銀行流動性風險管理辦法(試行)》) issued by CBRC on January 17, 2014, which became effective on March 1, 2014, core liabilities ratio and liquidity gap ratio are no longer treated as regulatory indicators.

CORPORATE GOVERNANCE AND INTERNAL CONTROLS

Corporate Governance

The PRC Company Law, the PRC Commercial Banking Law and other laws, regulations and regulatory documents provided specific requirements for corporate governance. On July 19, 2013, CBRC issued the Guidelines on Corporate Governance (《公司治理指引》). Commercial banks are required to establish a sound corporate governance system and a clear governance structure, with management and supervisory powers, functions and responsibilities being clearly split among the board, the supervisory board and the senior management. The guidelines also require commercial banks to abide by the principles of independent operation, effective checks and balances, mutual cooperation and coordinated running, and establish reasonable incentive and restraint mechanisms in order to achieve reasonability and efficiency in decision-making, execution and supervision.

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

Internal Controls

On September 12, 2014, CBRC promulgated the amended Internal Control Guidelines for Commercial Banks (《商業銀行內部控制指引》). Commercial banks are required to establish internal controls to ensure effective risk management for their business activities. Commercial banks should put in place operational and organizational structures of internal control with reasonable and clear assignment of responsibility and reporting relationship between board of directors, board of supervisors, senior management, internal control, internal auditing and operational departments. Commercial banks should also designate specialized department as function department of internal control management, take a leading role in coordinating and organizing internal control systems and in evaluating the systems.

On June 27, 2006, CBRC issued the Guidelines on Internal Audit for Banking Financial Institutions (《銀行業金融機構內部審計指引》). Commercial banks are required to establish an audit committee of the board with at least three members, a majority of whom must be non-executive directors. Banks are also required to have an Internal Audit Department with employees who meet professional qualifications, which shall in principle represent 1% of the bank's total number of employees. The guidelines set forth the required scope of the Internal Audit Department. Banks are required to evaluate the risk of each business unit at least once per year and conduct internal audit of each business unit at least once every two years.

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

In addition, the Guidelines on the Corporate Governance require commercial banks to establish an accountability system for a sound internal control environment. Under this system, the board of directors and senior management are required to maintain their respective accountability for the effectiveness of internal control and are required to be liable for material losses caused by a breakdown in internal control. The supervisory board is required to perform its supervisory obligations by supervising the board of directors and senior management, and refining the system and rules of internal control. Commercial banks are required to establish an independent department for effectively supervising and evaluating internal control, which reports directly to the board of directors, supervisory board and senior management on the progress of developing the internal control system and its enforcement.

Information Disclosure Requirements

Pursuant to the Measures for the Information Disclosure of Commercial Banks (《商業銀行信息披露辦法》) and the Guidelines on Corporate Governance (《公司治理指引》) issued by CBRC on July 3, 2007 and July 19, 2013, respectively, a PRC commercial bank is required to issue an annual report (including an audited financial report) within four months of the end of each financial year disclosing its financial position and operational results. The board of directors of the commercial banks shall be responsible for the disclosure of information. Disclosure documents include periodical reports, interim reports and other relevant materials. The commercial banks shall disclose information via annual reports, website or other methods to facilitate timely access to the disclosed information by the shareholders and other stakeholders. The listed commercial banks shall also disclose information in compliance with the relevant provisions promulgated by the securities regulatory authority.

Related Party Transactions

The Administrative Measures on Related Party Transactions with Insiders and Shareholders of Commercial Banks (《商業銀行與內部人和股東關聯交易管理辦法》) issued by CBRC on April 2, 2004, which provided stringent and detailed requirements on the Related Party Transactions of PRC commercial banks, require PRC commercial banks to adhere to the principles of honesty and fairness in conducting Related Party Transactions. PRC commercial banks are not allowed to grant unsecured loans to Related Parties. Under PRC laws and regulations, Related Party Transactions of commercial banks are required to be based on commercial principles and on terms no more favorable than similar transactions with non-related parties. These measures set out detailed provisions on the definition of a

Related Party, the form and content of a Related Party Transaction as well as the procedures and principles which must be followed for Related Party Transactions. Pursuant to these measures, commercial banks must submit to CBRC, on a quarterly basis, status reports regarding their Related Party Transactions, and must disclose information relating to Related Parties and Related Party transactions in the notes to their financial statements. Furthermore, the board of directors of commercial banks is required to report specifically on the implementation of the management of Related Party Transactions and such Related Party Transactions annually to the shareholders' general meeting. CBRC has the power to take actions against the bank and/or the Related Parties, including ordering rectification of the non-compliance, imposing limitations on shareholders' rights, ordering transfer of shares, ordering change of directors or senior management and imposing fines.

RISK MANAGEMENT

Since its inception, CBRC has published, in addition to guidelines concerning granting loan and credit to certain specific industries and customers and measures in respect of the implementation of Basel Accords, numerous risk management guidelines and rules in an effort to improve the risk management of PRC commercial banks, including operational risk management, market risk management, compliance risk management, liquidity risk management, information technology risk management and a supervisory rating system. For the guidelines concerning loans and credit to certain specific industries and customers and measures in respect of the implementation of Basel Accords, see "—Regulations on Principal Commercial Banking Activities—Lending" and "—Supervision over Capital Adequacy—Introduction of the New Leverage Requirements—Basel Accords". CBRC also issued the Core Indicators (Trial) as a basis of supervising the risk management of PRC commercial banks. CBRC established requirements for certain ratios relating to risk levels and risk provisions in the Core Indicators (Trial) and is expected to establish requirements for certain ratios relating to risk mitigation for the purpose of evaluating and monitoring the risks of PRC commercial banks. See "—Other Operational and Risk Management Ratios". CBRC periodically collects data through off-site surveillance to analyze such indicators and evaluate and issue early warnings of the risks on a timely basis.

Operational Risk Management

On March 22, 2005, CBRC issued the Circular on Strengthening Control of Operational Risk (《關於加大防範操作風險工作力度的通知》) to further strengthen PRC commercial banks' ability to identify, manage and control operational risks. The Circular sets out detailed requirements relating to, among other things: establishing a system under which officers at junior level responsible for business operations are required to rotate on a regular basis and have compulsory leave; establishing a system to encourage employees to fully comply with applicable regulations and internal rules and policies; improving the regular checking of account balances between PRC commercial banks and their customers; improving the timely checking of the banks' internal accounting; segregating persons responsible for bookkeeping from those responsible for account reconciliation; and establishing a system to strictly control and manage the use and keeping of chops, specimen signatures and evidential vouchers.

On May 14, 2007, CBRC issued the Guidelines on Operational Risk Management of Commercial Banks (《商業銀行操作風險管理指引》) to enhance the risk management abilities of the PRC Commercial banks. As required by the guidelines, a commercial bank shall establish an operational risk management system suitable for its nature, scale and complexity of activities so as to effectively identify, assess, monitor and control/mitigate operational risks. The operational risk management system shall include at least the following basic functions: the supervision and controls of the board of directors, responsibilities of senior management, proper organizational structure, and operational risk management policies, approaches, procedures and rules in relation to capital requirement for operational risks of provisions. Policies and procedures for operational risk management of commercial banks are required to be submitted to CBRC for filing. Commercial banks shall submit reports related to operational risks to CBRC or its local offices in accordance with the provisions. If a significant operational risk occurs and the commercial bank fails to adopt effective corrective measures within a specified period, CBRC has the power to take relevant regulatory measures.

Market Risk Management

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

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

Compliance Risk Management

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

Liquidity Risk Management

On January 17, 2014, CBRC issued the Administrative Measures on the Liquidity Risk of Commercial Banks (Trial) (《商業銀行流動性風險管理辦法(試行)》) which mainly introduced: (i) the liquidity risk management responsibilities of a commercial bank's board of directors and its special committees, senior management, board of supervisors and the specialized internal department in charge of liquidity risk management; (ii) the strategy, policy and procedure of liquidity risk management; (iii) the identification, measurement, supervision and control of liquidity risk; and (iv) the calculation methods of liquidity coverage ratio, loan-to-deposit ratio and liquidity ratio, and it is also stated that the PRC commercial banks' liquidity coverage ratios must reach 100% by the end of 2018. However, the regulatory requirement of liquidity coverage ratio does not apply to commercial banks with assets of less than RMB200 billion. According to the Administrative Measures on the

Liquidity Risk of Commercial Banks (Trial) (《商業銀行流動性風險管理辦法(試行)》), CBRC should apply regulatory requirement indicators and monitoring reference indicators in its supervision and management of the liquidity risk level and liquidity risk management of commercial banks. In particular, liquidity coverage ratio, loan-to-deposit ratio and liquidity ratio are regulatory requirement indicators for liquidity risk. On June 30, 2014, CBRC released the Notice on Adjusting the Calculation of Loan-to-Deposit Ratio for Commercial Banks (《中國銀監會關於調整商業銀行存貸比計算口徑的通知》) to adjust the rules for calculating the loan-to-deposit ratio beginning from July 1, 2014.

On August 29, 2015, the Standing Committee of the NPC promulgated the Decision of the Standing Committee of the National People's Congress on Amending the Commercial Banking Law of the People's Republic of China (《全國人民代表大會常務委員會關於修改〈中華人民共和國商業銀行法〉的決定》) (the "Decision"). According to the Decision, with effect from October 1, 2015, the maximum loan-to-deposit ratio of 75% stipulated under the PRC Commercial Banking Law was revoked and relevant provisions on the penalties for non-compliance with the aforementioned loan-to-deposit ratio imposed by the banking regulatory authorities of the State Council were also abolished. On September 2, 2015, CBRC issued the Administrative Measures on the Liquidity Risk of Commercial Banks (Provisional) (《商業銀行流動性風險管理辦法(試行)》), which came into effect on October 1, 2015 and provides that the loan-to-deposit ratio will cease to be the regulatory indicator of liquidity risk control and management and the requirement that the loan-to-deposit ratio must not exceed 75% was cancelled.

Information Technology Risk Management

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

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

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

Management of Other Risks

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

Supervisory Rating System

On December 30, 2005, CBRC issued the Internal Guidelines on Supervisory Ratings for Commercial Banks (Tentative) (《商業銀行監管評級內部指引(試行)》). All commercial banks legally incorporated in China (not applicable to newly established commercial banks) are subject to evaluation by CBRC based on a provisional supervisory rating system. Under these guidelines, the capital adequacy, asset quality, management quality, profitability, liquidity and exposure to market risk, etc., of commercial banks are evaluated and scored by CBRC on a continuous basis. Each bank is classified into one of six supervisory rating categories based on the scores. The results of ratings will serve as the basis for the regulatory authorities to implement their classified supervision and supervisory measures. Such supervisory rating system has not been disclosed to the public.

OWNERSHIP AND SHAREHOLDER RESTRICTIONS

Regulations on Equity Investment in Banks

Unless otherwise required by the approval authority, prior approval from CBRC is required for any natural or legal person to purchase 5% or more of the total shares of a commercial bank. If a shareholder of a commercial bank increases its shareholding above the 5% threshold without obtaining prior approval from the regulatory authority for the PRC banking industry, such shareholder may be subject to sanctions by the regulatory authority for the PRC banking industry, which includes (but is not limited to) correction of such misconduct, confiscation of illegal gains (if any) or fines.

On June 5, 2015, CBRC issued the amended Measures for the Implementation of Administrative Licensing Matters Concerning Chinese-funded Commercial Banks (《中資商業銀行行政許可事項實施辦法》). An application of a City Commercial Bank for modifying the shareholders that hold 5% or more of its total amount of capital or shares, or an application of an overseas financial institution for making investments or buying shares shall be subject to the acceptance, examination and decision of the local offices of CBRC. If shareholders holding more than 1% but less than 5% of the total amount of capital or shares of a City Commercial Bank, the relevant City Commercial Bank shall report to the local offices of CBRC within 10 days after the share transfer.

In addition, under the Measures for the Administration of the Investment and Shareholding in Chinese-funded Financial Institutions by Foreign Financial Institutions (《境外金融機構投資入股中資金融機構管理辦法》), no single foreign financial institution may own 20% or more of the equity interest of such a bank. If foreign investment in aggregate arrives or exceeds 25% of the total equity interest in a non-listed PRC commercial bank, such bank will be regulated as a foreign-invested bank. Listed PRC commercial banks are regulated as PRC banks even if foreign investment in the aggregate arrives or exceeds 25% of their total equity interest.

Restrictions on Shareholders

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

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

ANTI-MONEY LAUNDERING REGULATION

The PRC Anti-Money Laundering Law (《中華人民共和國反洗錢法》), which became effective on January 1, 2007, sets out the responsibilities of the relevant financial regulatory authorities regarding anti-money laundering, including participating in the formulation of the anti-money laundering rules and regulations for financial institutions and requires financial institutions to establish sound internal control systems regarding anti-money laundering. On November 14, 2006, PBoC issued the Anti-Money Laundering Regulations for Financial Institutions (《金融機構反洗錢規定》). Commercial banks are required to establish an internal anti-money laundering procedure and either establish an independent anti-money laundering department or designate a relevant department to implement their anti-money laundering procedures. On the same day PBoC issued the Administrative Measures for the Financial Institutions' Report of Large-Sum Transactions and Doubtful Transactions (《金融機構大額交易和可疑交易報告管理辦法》). PRC commercial banks are required to report the transactions to the Anti-money Laundering Monitoring and Analysis Center upon the detection of any suspicious transactions or transactions involving large amounts. Where necessary and pursuant to appropriate judicial proceedings, PRC commercial banks are required to cooperate with government authorities in preventing money laundering activities and in freezing assets. PBoC supervises and conducts on-site examinations of commercial banks' compliance with its anti-money laundering regulations and may impose penalties for any violations thereof in accordance with the PRC Anti-Money Laundering Law and Anti-Money Laundering Regulations for Financial Institutions. On June 21, 2007, PBoC, CBRC, CSRC and CIRC jointly promulgated the Measures on the Administration of Client Identity Identification and Materials of Transaction Recording of Financial Institutions (《金融機構客戶身份識別和客戶身份資料及交易記錄保存管理辦法》). Commercial banks are required to establish a customer identification system, record the identities of all customers and the information relating to each transaction, and keep personal transaction records and documents. On November 15, 2014, PBoC issued the Measures for the Supervision and Administration of the Anti-money Laundering Operations by Financial Institutions (for Trial Implementation) (《金融機構反洗錢監督管理辦法（試行）》). PBoC is required to establish a regular AML information reporting system for financial institutions and financial institutions are required to report AML work related information to PBoC and actively cooperate with PBoC and its branches in supervisory inspections.

OTHER REQUIREMENTS

Use of Funds

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

- short-term, medium-term and long-term loans;
- acceptance and discounts on instruments;
- interbank loans;
- trading of government bonds;
- trading of bonds issued by financial institutions;
- investment in banking institutions; and
- other uses as may be approved by the relevant government authorities.

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

Requirements for Regular Submission of Relevant Reports

On October 20, 2006, CBRC issued the Notice of China Banking Regulatory Commission on the Official Operation of Off-site Regulatory Information System in 2007 (《關於非現場監管信息系統 2007 年正式運行的通知》). Banking institutions are required to regularly submit to the banking regulatory authorities relevant statements, including basic financial information, credit risk, liquidity risk, capital adequacy ratio and such other information as required under such notice. In the statements required to be submitted by our Bank: the statistical statement of balance sheet items, the supervisory checklist of liquidity ratio and other similar information are required to be submitted monthly; the table of financial derivative business, the profit statement and other similar information, quarterly; the table of interest rate re-pricing risk, semi-annually; the statement of profit distribution and the table of credit quality migration and other similar information, annually.

REGULATORY AND SHAREHOLDERS' APPROVAL

We have obtained our Shareholders' approval for the proposed listing, see Appendix VII—"Statutory and General Information—Further Information about our Bank—Resolutions of Our Shareholders".

We also obtained approvals from CBRC Qingdao Office and CSRC for the Global Offering and the application to list our H Shares on the Hong Kong Stock Exchange, on July 2, 2015 and September 25, 2015, respectively.

OUR HISTORY

We were incorporated on November 15, 1996 under the name of Qingdao City Cooperative Bank Co., Ltd. (青島城市合作銀行股份有限公司). With the approval of the head office of PBoC and through the merger of 21 urban credit cooperatives in Qingdao, we had both of the original shareholders of 21 urban credit cooperatives and four new investors as our promoters. Key milestones in our history are summarized below.

November 1996	We were officially incorporated under the name of Qingdao City Cooperative Bank Co., Ltd. (青島城市合作銀行股份有限公司).
June 1998	We were renamed as Qingdao Commercial Bank Co., Ltd. (青島市商業銀行股份有限公司).
July 2001	Six subsidiaries of Haier invested in our Bank. Haier is currently our largest shareholder.
March 2004	Our SilverLake integrated banking service system went online, and we became the first bank in the PRC to adopt the IBM and SilverLake integrated solution for small and medium financial institutions.
December 2005	Qingdao Conson invested in our Bank.
July and August 2007	We introduced ISP and Rothschilds as our foreign investors and have entered into a strategic cooperation agreement with ISP. The procedures related to the capital increase was completed in 2008.
2008	We were renamed as Bank of Qingdao Co., Ltd. (青島銀行股份有限公司).
July 2008	Our first branch outside Qingdao, Ji'nan Branch, commenced business.
March 2011	We launched our wealth management center and private bank services.
June 2012	We became the global partner and the sole cooperation bank of the 2014 Qingdao International Horticultural Exposition.
March 2013	We successfully issued special financial bonds for small and medium enterprises in the amount of RMB5 billion.
April 2013	We launched our first service brand Qing Xin (青馨).
June 2013	Our information security system passed the ISO27001 international standard certification.

October 2014	We successfully issued the first tranche of collateralized loan obligations (CLOs) in the amount of RMB2,833 million.
October 2014	We established the charity fund "Dream and Love Fund of Bank of Qingdao (青銀夢想愛心基金)" for providing financial assistance to students in impoverished regions.

Changes in Registered Capital

Upon incorporation, our registered capital was RMB247.44 million, to which the shareholders of 21 urban credit cooperatives contributed with net assets of the urban credit cooperatives and the four new investors (Note 1) contributed in cash. The changes in our registered capital are summarized as follows.

1997 – 1999	In 1997, certain urban credit cooperatives which participated in our establishment were required to pay additional income tax. As such, our paid-up capital was reduced to RMB229.91 million. In 1999, our after-tax profit of RMB28.20 million for 1997 was credited as registered capital, among which RMB17.53 million was used to make up the abovementioned capital shortfall and the remaining RMB10.67 million was credited as additional registered capital. As a result, our registered capital was increased to RMB258.11 million.
2001	We issued a total of 510.70 million new Shares to six subsidiaries of Haier. Our registered capital was increased to RMB768.81 million.
2005	We issued a total of 340.00 million new Shares to Qingdao Conson. Our registered capital was increased to RMB1,108.81 million.
2007	We issued a total of 50.00 million new Shares to Qingdao Enterprise Development & Investment Co., Ltd. (青島市企業發展投資有限公司). Our registered capital was increased to RMB1,158.81 million.
2008	We issued a total of 330.00 million new Shares to eight investors including five companies outside Shandong Province. Our registered capital was increased to RMB1,488.81 million.
	We issued a total of 495.74 million new Shares to ISP and Rothschilds (Note 2). Our registered capital was increased to RMB1,984.55 million.
2011	We issued approximately 571.43 million new Shares to 18 investors including two new investors. Our registered capital was increased to RMB2,555.98 million.
2014	From June 2014 to September 2014, we entered into various share subscription agreements with 14 investors (including three new investors) (Note 3) respectively, and agreed to issue approximately 555.56 million new Shares, raising a total of RMB2,000.00 million to replenish our capital. The subscription proceeds were received on January 22, 2015 and the issuance was completed in February 2015.

Following the above-mentioned share capital increases, our registered capital as of the Latest Practicable Date was RMB3,111,532,749.

(1) The four new investors were Qingdao Finance Bureau, Qingdao Jieneng Power Group Corporation (青島捷能動力集團公司), Qingdao Yizhong Tobacco Group Corporation (青島頤中煙草集團公司), and Shandong Coal Industrial Joint Company in Qingdao Economic and Technological Development Zone (青島經濟技術開發區魯煤實業聯合公司).

(2) Pursuant to the framework agreement entered into between ISP and us on July 12, 2007, ISP was entitled to certain special rights in our Bank, including rights to restrict us from issuing shares to and entering into strategic cooperation with foreign financial institutions, to maintain and increase holding of our equity interest, to negotiate with us on certain material events preferentially, to obtain our financial, business, regulatory and shareholders' information and to accredit representatives to our Board and special committees. Pursuant to the subscription agreement entered into between Rothschilds and us on August 23, 2007, Rothschilds was entitled to certain special rights in our Bank, including rights to maintain and increase holding of our equity interest and obtain our financial, business, regulatory and shareholders' information. Each of ISP and Rothschilds have undertaken to terminate the above special rights upon Listing. These undertakings did not constitute new agreements between the respective parties to the above agreements.

(3) The 11 then existing Shareholders who subscribed for new Shares are Qingdao Haier Mold Co., Ltd. (青島海爾模具有限公司), Qingdao Haier Tooling Development Co., Ltd. (青島海爾工裝研製有限公司), Qingdao Haier Robot Co., Ltd. (青島海爾機器人有限公司), Qingdao Haier Co., Ltd. (青島海爾股份有限公司), Qingdao Haier Air-Conditioner Co., Ltd. (青島海爾空調器有限總公司), Qingdao Haier Special Refrigerator Co., Ltd. (青島海爾特種電冰櫃有限公司), ISP, Qingdao Conson, Shandong Sanliyuan Trading Co., Ltd. (山東三利源經貿有限公司), Qingdao Hairen Investment Co., Ltd. (青島海仁投資有限責任公司), and Qingdao Biwan Marine Products Co., Ltd. (青島碧灣海產有限公司). The three new investors who subscribed for new Shares are Qingdao Jifa Group Co., Ltd. (青島即發集團股份有限公司), Qingdao New Hongfang Group Co., Ltd. (青島新紅紡集團有限公司), and Qingdao Weiao Railway Material Manufacturing Co., Ltd (青島威奧軌道裝飾材料製造有限公司). Save as the shareholdings in the Bank, the 11 then existing Shareholders and the three new investors and their respective associates are independent third parties to us.

Replacement of Non-Performing Assets

In 2002, the Qingdao Government replaced the non-performing assets we took over from urban credit cooperatives when we were established. In 2003, 2004 and 2005, we entered into the 2003 Agreement on Replacement of Non-performing Assets of Qingdao Commercial Bank (《2003年度置換市商業銀行不良資產協議書》), the 2004 Agreement on Replacement of Non-performing Assets of Qingdao Commercial Bank (《2004年度置換市商業銀行不良資產協議書》) and the 2005 Agreement on Replacement of Non-performing Assets of Qingdao Commercial Bank (《2005年度置換市商業銀行不良資產協議書》) with Qingdao Economic Development & Investment Co., Ltd. (青島市經濟開發投資公司), and completed the replacement of non-performing assets of RMB470 million, RMB320 million and RMB610 million, respectively. In 2005, we also entered into the 2005 Agreement on Replacement of Non-performing Assets of Qingdao Commercial Bank (《2005年度置換市商業銀行不良資產協議書》) with Qingdao Conson and completed the replacement of non-performing assets of RMB170 million in the year.

In 2007, we entered into the Agreement on Purchase of Non-performing Assets of Qingdao Commercial Bank (《關於購買青島市商業銀行不良資產的協議書》) with Qingdao Enterprise Development & Investment Co., Ltd.. The purchase of non-performing assets of RMB45 million was completed in the same year. In 2008, upon approval from the Qingdao Government, fiscal fund of RMB150 million was used by Qingdao Finance Bureau to replace our non-performing assets of an equal amount.

Issuance of Bonds

In March 2013, with the approval from CBRC and PBoC, we issued special financial bonds for small and medium enterprises with an aggregate principal amount of RMB5 billion, including three-year-term financial bonds at a fixed interest rate of 4.60% and five-year-term financial bonds at a fixed interest rate of 4.80%.

In October 2014, with the approval from CBRC and PBoC, we issued the first tranche of CLOs in 2014 with an aggregate principal amount of RMB2,833 million on the interbank market. The nominal interest rates of these securities in three tranches were 4.97%, 5.10% and 5.60%, respectively, and the maturity date is January 17, 2022.

In March 2015, upon approval from CBRC and PBoC, we issued tier-two capital bonds with an aggregate principal amount of RMB2.2 billion with a fixed interest rate.

For details of special financial bonds for small and micro enterprises and tier-two capital bonds, see "Assets and Liabilities—Liabilities and Sources of Fund—Other Components of Our Liabilities".

OUR SHAREHOLDING AND CORPORATE STRUCTURE

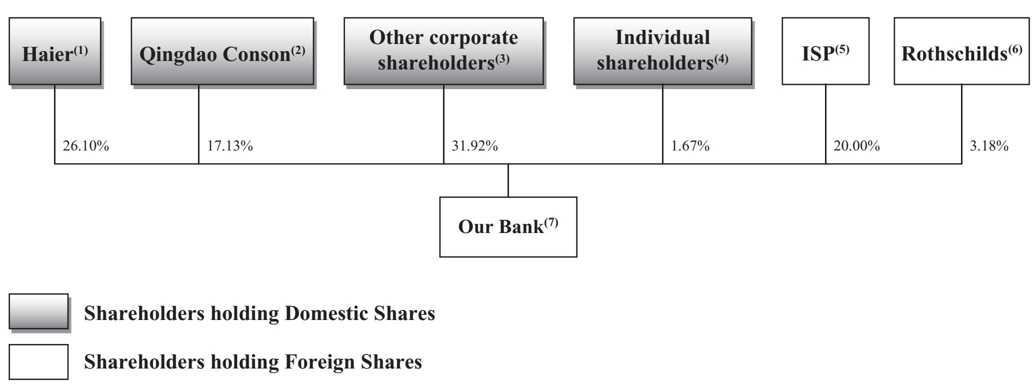
Shareholding Structure

As of June 30, 2015, we had 137 corporate shareholders and 2,135 individual shareholders holding in aggregate approximately 98.33% and 1.67% of our Shares, respectively. As of the Latest Practicable Date, Haier, ISP and Qingdao Conson are interested in 5% or more of our Shares, holding approximately 26.10%, 20.00% and 17.13% of our Shares, respectively. Haier holds our Shares through nine corporate shareholders. Having made due and careful inquiries, Haier, ISP and Qingdao Conson are independent from each other. For details on the above Shareholders, see "Substantial Shareholders".

As of June 30, 2015, we were unable to contact 24 corporate shareholders and 84 individual shareholders, holding approximately 0.17% of our Shares in aggregate. Shares held by such Shareholders whom we are unable to contact were deposited with the Qingdao Securities Depositary Center for Joint Stock Companies (青島市股份制企業股份託管中心). The existence of such Shareholders whom we are unable to contact has no impact on our ability to carry out corporate actions such as convening Shareholders' general meetings and declaring dividends.

Immediately before the Global Offering

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



(1) Haier holds our Shares through nine corporate shareholders and is our largest shareholder. The principal business of Haier covers household appliances, communication, information technology and digital products, household commodities, logistics, financial, real estate, bio-pharmaceuticals and other sectors.

(2) Qingdao Conson is wholly owned by Qingdao Conson Development (Group) Co., Ltd., a wholly state-owned company. Qingdao Conson is one of our state-owned shareholders. The business of Qingdao Conson mainly includes (but not limited to) the management and operation of state-owned capital and state-owned equity interests and the preservation and increase of the value of state-owned assets.

(3) 124 other corporate shareholders hold approximately 31.92% of our issued Shares in aggregate. The shareholding of each of these corporate shareholders ranges from approximately 0.000000032% to 4.89%.

(4) 2,135 individual shareholders hold approximately 1.67% of our issued Shares in aggregate. The shareholding of each of these individual shareholders ranges from approximately 0.0000035% to 0.22%.

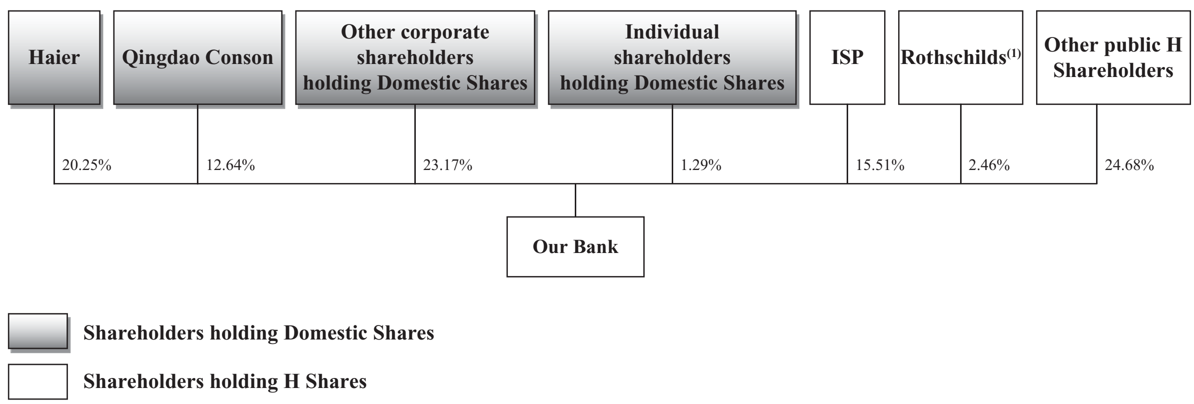
(5) ISP is a banking group with its headquarters in Italy, and is our foreign shareholder. The business of ISP mainly includes retail and corporate banking business and wealth management.

(6) Rothschilds is a bank holding company incorporated in Switzerland, and is our foreign shareholder. Rothschilds, through its subsidiaries, provides banking, treasury, investment banking, fund management, private banking and trust management services to governments, corporations and individuals worldwide.

(7) For our principal organizational and management structure, see "—Organizational Structure".

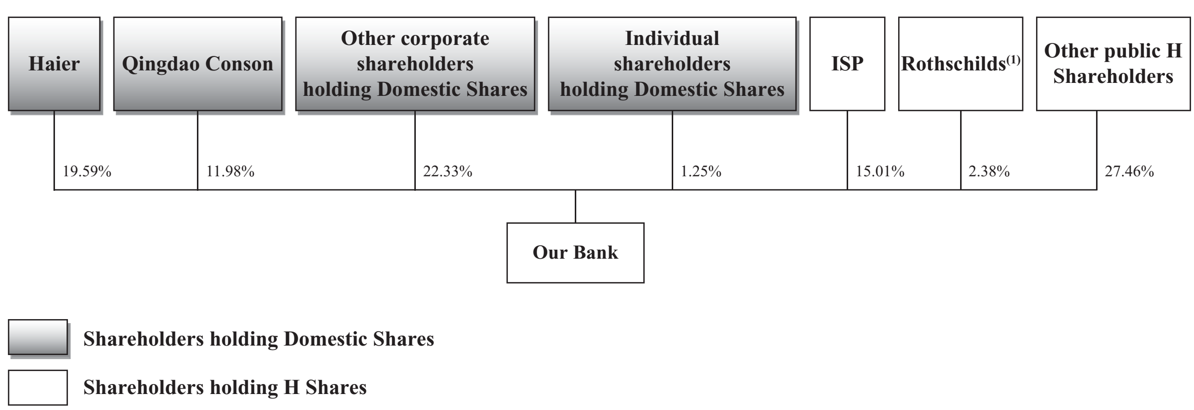
Immediately after the Completion of the Global Offering

The following chart sets forth our shareholding structure immediately following the completion of the Global Offering, assuming no exercise of the Over-allotment Option and no change in shareholding by each of the shareholders listed below after the Latest Practicable Date.



(1) H Shares held by Rothschilds will form part of our public float after Listing.

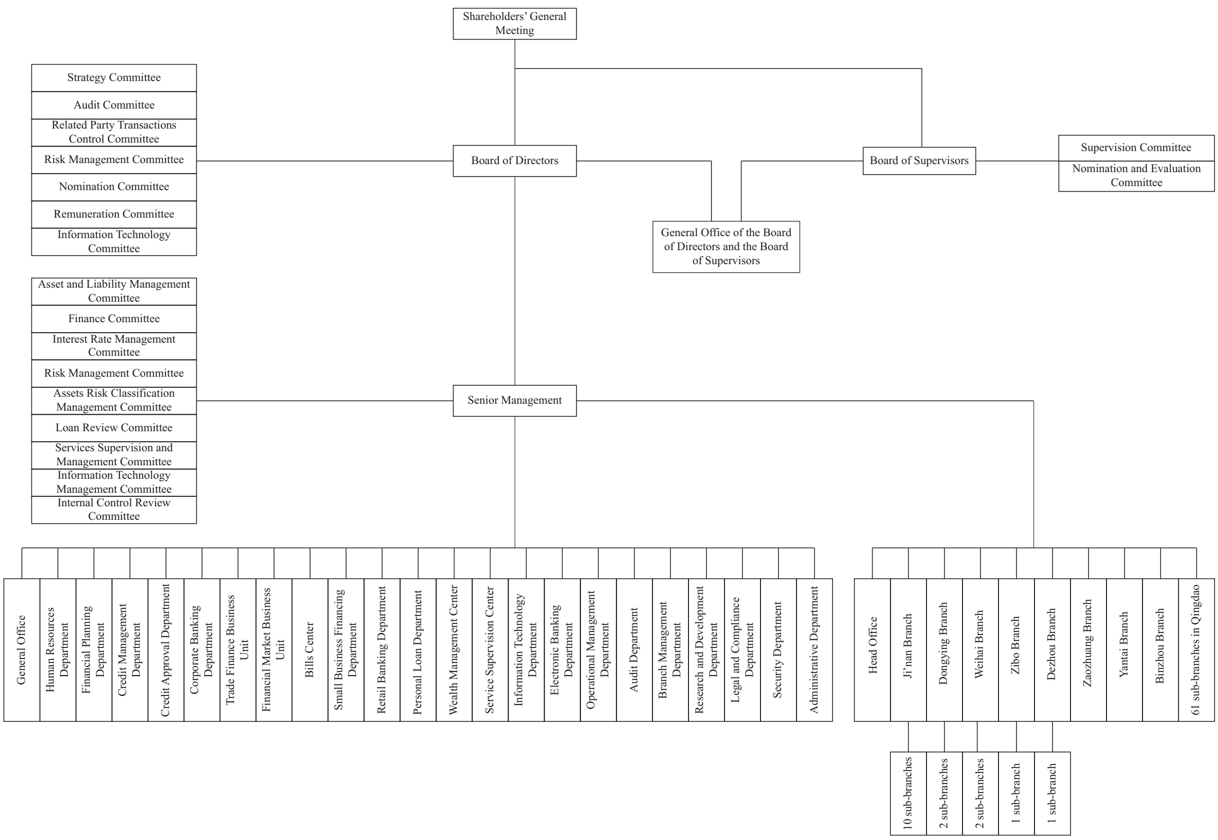
The following chart sets forth our shareholding structure immediately following the completion of the Global Offering, assuming full exercise of the Over-allotment Option and no change in shareholding by each of the shareholders listed below after the Latest Practicable Date.



(1) H Shares held by Rothschilds will form part of our public float after Listing.

Organizational Structure

The following chart sets forth our principal organizational and management structure as of June 30, 2015.



Corporate Governance Structure

We have established a corporate governance structure which comprises the Shareholders' general meeting, the Board, the Board of Supervisors and the senior management.

Board

We have established a standardized structure for our Board, which consists of professionals with diversified backgrounds and qualifications. The major responsibilities of our Board include leading our strategic development, formulating development strategies, determining the annual risk management and risk appetite indicators for our business, monitoring risk management of every segment and providing supervisory opinions, formulating capital management policy and medium-and long-term capital replenishment plans, leading short-term fundraising projects, and supervising the performance of our senior management through annual performance appraisals. We have set up mechanisms for decision-making, execution, evaluation, and review to ensure the independent and effective operation of our Board. Our Board has established the Strategy Committee, Information Technology Committee, Related Party Transactions Control Committee, Risk Management Committee, Remuneration Committee, Audit Committee and Nomination Committee. Each committee shall report to our Board. For details of the functions of each committee, see "Directors, Supervisors and Senior Management— Committees under the Board".

Board of Supervisors

The Board of Supervisors is responsible for supervising the performance of the Board and the senior management as well as our financial activities, risk management and internal control. The Board of Supervisors adopts various supervisory measures such as periodic business investigation and attending important meetings in order to understand our operation and management and provide supervisory advice. It supervises the implementation of such advice from time to time. The Board of Supervisors has established a Nomination and Evaluation Committee and a Supervision Committee. Such committees shall report to the Board of Supervisors.

Senior Management

The senior management has the powers vested by our Board to manage our daily operations. Our President is primarily responsible for carrying out the decisions made by our Board and shall report to our Board. We have also appointed Vice Presidents and other senior management members to work with our President and to perform their respective management responsibilities.

OVERVIEW

As of December 31, 2014, we were the largest City Commercial Bank in Shandong Province, China, in terms of total assets, total loans, customer deposits and total equity. As of December 31, 2014, our total loans originated in Qingdao ranked 7th among all the banks in Qingdao with a market share of 4.5% and our total deposits booked in Qingdao ranked 7th among all the banks in Qingdao with a market share of 7.2%. We have developed a business model that is well aligned with the regional economy. Leveraging our inherent advantages, we operate in a professional and specialized manner to meet our target customers' needs by providing quality and convenient financial products and services. We seek to achieve sustainable growth and create value for our Shareholders.

In recent years, our business has seen rapid growth. As of June 30, 2015, we had total assets of RMB169.4 billion with a CAGR of 23.9% from 2012 to 2014. In 2015, we ranked 434th among the Top 1,000 World Banks in terms of total assets at the end of 2014, according to The Banker, a UK magazine, up 40 positions as compared to the preceding year. From 2012 to 2014, our operating income increased from RMB2,887 million to RMB4,365 million at a CAGR of 23.0%. During the same period, our net profit increased from RMB920 million to RMB1,495 million at a CAGR of 27.5%, which was higher than the net profit CAGRs of all listed City Commercial Banks in China for the same period. In addition, we have adhered to rigorous risk management to maintain stable operations and sound asset quality. As of December 31, 2014, our non-performing loan ratio was 1.14%, which was significantly lower than the average of 1.86% for financial institutions in the banking industry of Shandong Province and the average of 1.25% for commercial banks in China. As of the same date, our allowance coverage ratio and allowance to gross loan ratio were 242.34% and 2.76%, respectively, significantly higher than the regulatory requirements.

Our distribution network expands across Shandong Province with Qingdao as our base. As of June 30, 2015, we had 86 outlets in nine cities in Shandong Province, namely Qingdao, Ji'nan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai and Binzhou, including one head office and 61 sub-branches in Qingdao. We plan to steadily expand our distribution network to all major cities in Shandong Province. In addition, we provide convenient 24-hour online services to our customers through electronic banking channels such as online banking, telephone banking, mobile banking, WeChat banking and direct banking.

We have received a number of honors and awards from various authoritative institutions in recognition of our excellent business performance and sound management. For example:

- From 2011 to 2014, we were awarded the Golden-dragon Award by the Financial News (《金融時報》) for four consecutive years, including the "Most Innovative Small and Medium Bank of the Year" (年度最具創新力中小銀行) in 2011 and 2013, the "Best Small and Medium Bank of the Year for Small and Micro Enterprises" (年度最佳小微企業服務中小銀行) in 2012 and the "Best Small and Medium Bank of the Year for Retail Banking" (年度最佳零售業務中小銀行) in 2014;
- From 2012 to 2014, we were awarded the "Research Achievement in Information Technology on Risk Management in the Banking Industry" (銀行業信息科技風險管理研究成果獎) by CBRC for three consecutive years, including the Class II Achievement Prize in 2013, which was the highest prize awarded to City Commercial Banks that year;

- In 2012, 2013 and 2014, we were awarded the "Best City Commercial Bank in Trade Finance" (最佳貿易金融城商行), the "Best Bank for Growth in Trade Finance" (最佳貿易金融成長銀行) and the "Best City Commercial Bank in Trade Finance", respectively, jointly by the Trade Finance (《貿易金融》) magazine and SINOTF.COM (中國貿易金融網);
- In 2012 and 2014, we were awarded the "Outstanding Trading Member" (優秀交易成員) and the "Most Influential Bank" (最具市場影響力獎) in the interbank RMB market, respectively, by the National Interbank Funding Center (全國銀行間同業拆借中心);
- In 2012 and 2014, we were awarded the "Outstanding Settlement Member" (優秀結算成員) in the national interbank bond market and the "Outstanding Market Dealer" (優秀自營商) in China's bond market, respectively, by the China Central Depository and Clearing Corporation Limited (中央國債登記結算有限責任公司);
- In 2013 and 2014, we were awarded the "Best Regional Commercial Bank for Online Banking Customer Experience" (區域性商業銀行最佳網上銀行用戶體驗獎) and the "Best Regional Commercial Bank for Mobile-banking Security" (區域性商業銀行最佳手機銀行安全獎), respectively, by the China Financial Certification Authority (中國金融認證中心).

OUR COMPETITIVE STRENGTHS

Modernized Corporate Governance Underpinned by Our High Quality and Diversified Shareholding Structure

Our diversified shareholding structure is a prime example of the mixed ownership structure for Chinese financial institutions. We have a balanced shareholding structure with no single controlling shareholder holding more than a 30% stake, and the aggregate shareholding of our foreign and non-state-owned shareholders exceeds 75% of our total Shares. Our major Shareholders have remained stable. Moreover, our major Shareholders have made capital contributions to all of our capital increases since 2008.

With in-depth knowledge of the capital markets and the financial industry, our major Shareholders have introduced sound corporate governance to our Board and aligned their interest to support our sustainable development. Our major Shareholders support our investments in information technology, branch network upgrade, brand building and talent acquisition, laying a solid foundation for our long-term development. They have also endorsed our professional executive system, with our management team trusted and adequately authorized by our Board to make decisions based on professional judgment in response to market changes. They act in strict compliance with our Articles of Association and have rarely entered into related party transactions and equity pledges.

Our top three Shareholders, Haier, ISP and Qingdao Conson, each a leader in their respective sectors, provide strong support to our development.

- Haier, our largest Shareholder, is one of the world's leading providers of comprehensive home appliance solutions. A public company since 1993, it has introduced best practices in capital markets and corporate management to us, providing us with guidance on business development and the building of differentiated brand and core competitiveness.

- ISP, our second largest Shareholder, is a large international banking group with extensive experience in areas such as retail banking, risk management and wealth management. Via secondment of subject matter experts and provision of regular training programs, it has helped to enhance our comprehensive financial service capabilities.
- Qingdao Conson, our third largest Shareholder, is a large state-owned investment group in Qingdao. With an excellent reputation in Qingdao, it has supported our commitment to serving the local economy, providing us with helpful advice on our development.

Our senior management has in-depth knowledge of the banking industry and market-oriented management philosophies. Many members of our senior management are recruited via market-oriented practices, including both our Chairman and President. Mr. Guo Shaoquan (郭少泉), our Chairman, previously served as the head of the Tianjin branch and Qingdao branch of China Merchants Bank and the deputy head of the Qingdao branch of China Construction Bank. With nearly 35 years of experience in the banking industry, including over 30 years of experience in Qingdao, he has in-depth knowledge of the macroeconomy and the banking industry of Qingdao. Mr. Wang Lin (王麟), our President, previously served as general manager of the corporate banking division at the head office of China Merchants Bank and the head of its Ningbo branch. He has over 30 years of experience in the banking industry. Our senior management team remained stable during the Track Record Period.

In order to attract and retain talents and maintain the competitiveness and stability of our workforce, we have adopted a market-oriented recruitment approach and focused on our staff's career development. As of June 30, 2015, we had 2,590 employees, of whom 16.8% had postgraduate education, and 75.6% had university-level education or above. During the Track Record Period, 26 of our employees obtained the Certified Financial Planner (CFP) qualification and 100 of our employees obtained the Chinese Registered Financial Analyst (CRFA) qualification. In 2014, we organized 137 seminars to train our management personnel of all levels, with approximately 15,000 in attendance records. ISP, our strategic shareholder, also provides various overseas training annually for our mid-level and senior management.

A Distinct "Interface Bank" Supported by Continuous Investments in Technology

In 2012, our Board proposed a strategic goal to develop us into an "Interface Bank". Via our management's continued efforts in implementation, the strategy has yielded substantial results and become a core competitive advantage of ours.

"Interface Bank" refers to the business model where our business platform is connected to the service platforms of our partners, which include corporate customers, financial institutions and other third parties. Through this business model, our partners fulfill their needs for financial services, whereas we secure the partnerships and obtain access to their customer base.

Development of the "Interface Bank" model requires effective technology support. We have elevated "excellence in technology" to a firmwide strategy and made significant investments in information technology systems and teams. From 2012 to 2014, our total expenses on information technology equipment, systems and relevant software and hardware amounted to approximately RMB430 million. As of June 30, 2015, our information technology team grew to a size of 107, equipping us with professional information technology service capabilities.

Our "Interface Bank" strategy has achieved significant progress with strong growth momentum. For example, as a locally incorporated bank with prompt responsiveness and flexible decision-making, we established system connection with the fiscal non-taxation income systems of the governments of Shandong Province and Qingdao, which allows us to secure stable sources of funding. As of June 30, 2015, transactions completed through the fiscal non-taxation income systems amounted to RMB13.8 billion, with a deposit balance of nearly RMB2 billion. We have established system connection with 15 enterprises that engage in industries serving the public such as utilities, public transportation and mobile communication, allowing us to become a bank with one of the most comprehensive range of payment services in Qingdao and to acquire retail customers in bulk while serving local residents. For instance, in 2014, we processed 180,000 heating bill payments through our platform, with an aggregate amount of over RMB300 million.

We have engaged in innovative cooperation with small and medium banks in Shandong Province and provided them with various services such as liquidity support, agency sales of products, agency issuance of bills, through which we extended the reach of our business. For example, leveraging our outstanding asset management capability, we engage other small and medium banks to distribute our wealth management products, thus helping them satisfy their customers' demand while growing our assets under management so as to achieve win-win cooperation. We also provide credit enhancement to selected banks to earn fee income within well-controlled risk levels.

Mobile Internet technology has become an important channel for us to connect with customers, deliver products and services, integrate resources and gain new sources of income. We have introduced an e-commerce platform, a P2B online financial platform and direct banking. We are also continuously improving our mobile and WeChat banking interfaces. As of June 30, 2015, 88.6% of our transactions were conducted through electronic banking channels.

A Competitive Retail Bank Founded on Innovative Customer Acquisition Model and Outstanding Service Capabilities

We focus on the development of our retail banking business and prioritize resources allocation to this business. We are committed to serving the local markets and residents through an innovative bulk customer acquisition model, comprehensive product offerings covering various life stages of our customers as well as quality and pleasant services.

Leveraging our "Interface Bank" model, we have acquired retail customers in bulk through partnerships with our corporate customers. We actively explore the opportunities of acquiring the upstream and downstream customers of our corporate clients. For example, by serving prominent local companies in the agricultural, livestock farming and retail industries, we provide deposit and loan products to their upstream suppliers and downstream customers in bulk. We have established system connection with a number of enterprises and public institutions, becoming a bank with one of the most comprehensive range of payment services in Qingdao. We provide enterprises, government departments and public institutions with payroll services covering salaries, benefits and allowances. In 2014, salaries, benefits and allowances paid through our payroll service platforms amounted to RMB8,171 million. We are also one of the banks providing demolition and reallocation payment services platforms for a number of major urban renewal projects in Qingdao. We believe our diversified collection and payment services enable us to effectively reach local residents' daily lives, providing us with a stable source of personal deposits and increasing opportunities for cross-selling.

Catering to the different consumption needs of our customers in various life stages, we have launched the "Happy Family Plan (幸福家庭計劃)" platform, to offer tailored consumer finance products with respect to home purchases, renovations, car purchases, weddings and parenting. We proactively grow our residential mortgage loan business with lower capital charges and a more manageable risk profile. From 2012 to 2014, our residential mortgage loans increased at a CAGR of 42.4% and increased, as a percentage of our personal loans, from 27.8% to 39.2%. Meanwhile, we closely follow our residential mortgage loan customers' demands for subsequent financial services and offer An Ju Dai (安居貸) products, providing qualified customers with credit loans which are relatively higher yielding.

We are committed to developing all-in-one financial IC cards which integrates key functions that meet people's everyday and financial needs. We have introduced the all-in-one cards in closed-loop areas including industrial parks, campuses and communities to acquire customers from such areas in bulk. For example, we developed the all-in-one cards for the Qingdao National Hi-tech Industrial Development Zone (青島國家高新技術產業開發區), providing functions such as payroll services, security access and cafeteria and supermarket payments within the zone. We will also continue to promote the convenient all-in-one cards for public transportation. We have entered into a comprehensive strategic cooperation agreement with Qingdao Metro Group (青島地鐵集團) and launched a financial IC card metro payment system under the PBoC 3.0 standards. In November 2015, we issued IC cards with a quick pass feature which can function as metro tickets. The payment for metro tickets is made from an e-cash account of the financial IC cards, which is separate from the bank card's settlement account to ensure bank account security. We also plan to incorporate more payment functions for public transportation fares and highway toll fees to the card. We will also establish outlets or self-service machines at all key metro stations upon their completion.

We have a broad range of wealth management products under the "Hairong Wealth" (海融財富) brand, which now includes five major categories of products, namely, An Ying (安赢), Wen Ying (穩赢), Chuang Ying (創赢), Zun Xian (尊享) and Qian Chao (錢潮), catering to customers' different risk and return profiles. We have also launched open-ended products and night-time services to meet customers' diverse needs. From 2012 to 2014, the annual sales of our retail wealth management products grew at a CAGR of 127.1%. As of June 30, 2015, we ranked first in Qingdao in terms of the scale of our wealth management business, with the balance of our retail wealth management products reaching RMB24,211 million. According to CnBenefit (普益財富), we ranked fifth among PRC regional banks in terms of overall wealth management capabilities in 2014.

We consider service quality to be a fundamental principle. We have a dedicated service supervision center to centrally manage our customer service and registered the Qing Xin (青馨) service brand in 2012 to build up our brand image. We also focus on providing differentiated services for high-end customers. We are the first City Commercial Bank in China to establish a private banking and wealth management center. Leveraging the resources and brand recognition of our foreign shareholders, we have also introduced a series of high-end services for our high-net-worth customers.

As a result of our innovative customer acquisition model and outstanding service capabilities, our retail banking business has achieved rapid growth. From 2012 to 2014, our retail banking operating income grew at a CAGR of 39.5%, and its contribution to our total operating income increased from 15.7% to 20.2%; specifically, net fee and commission income from retail banking grew at a CAGR of 84.4%. As of June 30, 2015, our retail customers' financial assets held with us amounted to RMB65,841 million, which was 2.4 times of the balance as of December 31, 2012.

A Rapidly Growing Financial Market Business in the New Era of Asset Management Driven by Our Professional Trading and Asset Allocation Capabilities

The asset management markets in China have tremendous growth potential. The new regulations introduced since 2012 have eased the entry barriers to the asset management market. Commercial banks are beginning to develop new businesses centered around wealth management and are expected to play an important role in the new era of asset management by offering a variety of products and services, including wealth management, trading and investment banking.

In response to the changing competitive landscape, we reorganized our financial market department into a dedicated business unit in 2014, integrating interbank finance, wealth management, investment and investment banking. We carry out specialized financial market business operations with business development and internal control mechanisms characterized by clear divisions of responsibilities and checks and balances among our front, middle and back offices. Our financial market business unit has a highly experienced and qualified team, thus laying a solid foundation for the rapid and innovative development of our financial market business. Of the 30 employees in our financial market business unit, as of June 30, 2015, 19 possess master's degrees or above and many have been educated in prestigious universities overseas and had work experience in prominent large Chinese and international financial institutions. A number of these employees have been awarded various honors, including "Outstanding Traders (優秀交易員)" and "Outstanding Head of Trading (優秀交易主管)" by the National Interbank Funding Center.

In response to the challenges from the liberalization of interest rates and disintermediation in the financial markets, we have proactively expanded our interbank businesses. On the one hand, we have expanded our business licenses. In addition to our qualification to underwrite financial bonds issued by the three PRC policy banks, act as a bond settlement agent and participate in the management of treasury cash in the form of commercial bank time deposits, we have also received qualification to underwrite debt financing instruments issued by non-financial enterprises, act as a standing member of the Committee for Self-regulated Market Interest Rates Pricing Mechanisms, act as a probationary market maker on the interbank bond market and issue collateralized loan obligations (CLOs) in 2014. On the other hand, in order to develop and retain interbank customers, we have furthered our business cooperation with non-banking financial institutions such as securities firms, funds, trust companies and insurance companies, while maintaining strong relationships with commercial banks. As of June 30, 2015, the number of our interbank clients reached 808, laying a solid foundation for the customer base of our interbank transactions, bond issuance and liquidity management. In September 2015, the Shandong interbank strategic financial cooperation program initiated by us was launched, with active participants consisting of 146 local financial institutions incorporated in Shandong. We lead the coordination on general matters of the cooperation program to promote efficient information sharing and strengthen the cooperation and communication among the participants with an aim to achieve resources sharing, promote financial innovations and provide mutual liquidity support.

Aiming at satisfying our customers' asset management demands, we have adopted a prudent and adaptive asset allocation strategy and developed competitive wealth management products to provide comprehensive services to our customers. The aggregate amount of wealth management products issued by us in 2014 exceeded RMB100 billion. From 2012 to 2014, the year-end balance and aggregate amount of wealth management products issued grew at a CAGR of 107.7% and 121.2%, respectively.

Based on our in-depth analysis and knowledge of capital markets and adherence to the prudent operational philosophies set by our Board, we have carefully formulated our investment plans with respect to our own funds. We actively participate in the PRC interbank bond markets and have received a number of accolades, demonstrating our influence and recognition in the industry. In 2014, we were awarded the "Outstanding Market Dealer" in China's bond markets by the China Central Depository & Clearing Co., Ltd and the "Most Influential Bank" by the National Interbank Funding Center. In 2014, our trading volume in bonds amounted to RMB3,059.6 billion, ranking 11th among City Commercial Banks in China. Our investment securities and other financial assets grew at a CAGR of 60.8% from 2012 to 2014. As of June 30, 2015, the gross balance of our investment securities and other financial assets reached RMB70.0 billion.

With our increasing understanding of businesses and products across different markets, we have increased our investments in trust fund plans and asset management plans, subject to applicable regulatory requirements and acceptable risk exposure limits. We also cooperate with qualified securities companies with respect to products including beneficiary rights in margin financing, beneficiary certificates issued by securities companies and equity capital markets related products to expand our investment channels and increase our investment returns.

Assets under management of the financial market business grew at a CAGR of 52.8% from 2012 to 2014, with a balance of RMB102.3 billion as of June 30, 2015.

Centralized Risk Management System, Effective Information Collection Measures and Proven Execution Capabilities

Adhering to rigorous risk management, we have streamlined our policies and procedures and centralized our primary risk management functions at our head office and branches to minimize our risk exposure and enhance our risk assessment capabilities. Our credit approval function, operated under a tiered credit approval system, is independent from our credit extension function. Our credit approvers and loan review committees are given respective authorizations based on the nature of the business and risk profiles. We have granted credit approval authority to designated approvers in our small enterprise financing department and trade finance business unit as well as certain sub-branches to improve efficiency. We rigorously manage the authorization of credit to our branches through comprehensive pre-authorization guidance and assessment and periodic post-authorization evaluation. We also make timely adjustment to our authorizations in response to changes in local markets in order to better align with the local credit profiles.

We have deployed a number of innovative and effective information collection measures to proactively identify and mitigate potential risk exposures.

- We have implemented weekly on-site inspections by senior management for almost five years. An inspection team led by the senior management of our head office conducts, on a weekly basis, *ad hoc* on-site inspections of certain outlets in order to identify any compliance and operational issues, lapses in our implementation of policies and procedures, and potential risks. Results of the inspections are reported in weekly meetings organized by our President at the head office to identify responsibilities and monitor remediation. This practice enables our senior management to gather first-hand information at its root to address the issues on a timely basis, thus enhancing our management efficiency.

- We have encouraged our employees to identify internal control lapses and have an ongoing risk identification initiative in place among our employees. In 2014, we received more than 700 recommendations covering various business lines and functions, which provided us with valuable insights to improve our business processes and enhance our internal control. We have also organized employee presentations on compliance at our bank-wide weekly morning meetings to strengthen our compliance culture and heighten our employees' compliance awareness.
- We have adopted a compulsory leave system, under which a professional team organized by our head office performs the duties of key positions in our outlets, such as sub-branch managers, key management personnel and business operation personnel, on an *ad hoc* basis while such personnel are placed on compulsory leave. This has enabled us to identify potential issues in our business operations, effectively prevent operational risks and moral hazards and standardize our business operation procedures on a bank-wide basis.
- Via quarterly internal control evaluation meetings, we conduct objective assessments on the implementation of our policies and procedures and review major areas of significant risk exposure in our business operations, in order to ensure the implementation of our internal control procedures.
- We have focused on building our policies and procedures. We have designated the years of 2012, 2013 and 2014 as "Year of Establishment" (制度建設年), "Year of Implementation" (制度執行年) and "Year of Assessment" (制度評價年), respectively, and organized activities to refine and supplement our policies and procedures.

We have been operating in Shandong Province for nearly 20 years and possess in-depth understanding and knowledge of the markets, the economy and the customers in Shandong Province. Our focus on risk management has allowed us to withstand various challenges and enabled us to successfully avoid several significant risk incidents in the region. As a result, we have been able to maintain sound asset quality. As of December 31, 2014, our non-performing loan ratio was 1.14%, significantly lower than the average of 1.86% for financial institutions in the banking industry of Shandong Province and the average of 1.25% for commercial banks in China. Brilliance Ratings gave us an issuer credit rating of AA+ in 2015, demonstrating our excellence in risk management.

Beneficiary of the Transformation and Upgrade of Shandong Province's Economy, as well as Favorable Policies such as "One Belt and One Road"

Shandong is a major province in China, ranking second in terms of population as of the 2014 year end and third in terms of GDP in 2014. The development of the Blue Economic Zone in the Shandong Peninsula became a national strategy in 2011. Shandong is strategically important to the developed part of Eastern China and the country as a whole. Pursuant to our regional expansion strategy, we have steadily expanded our distribution network to 86 outlets across nine cities in Shandong Province, namely Qingdao, Ji'nan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai and Binzhou, whose GDP in aggregate accounted for over 60% of Shandong Province's GDP in 2014. As of December 31, 2014, we were the largest City Commercial Bank in Shandong Province in terms of total assets, total loans, customer deposits and total equity, demonstrating our competitive advantage and leading position in Shandong Province. We believe we are well-positioned to capture the opportunities arising from the development of the Blue Economic Zone given our extensive network and leading position in Shandong Province's banking industry.

Qingdao is an important coastal city in Eastern China with substantial geographic advantages. Qingdao is a starting point for four of the five ocean and inland routes proposed under China's "One Belt and One Road (一帶一路)" strategy, making Qingdao a vital gateway in this strategy.

- In September 2015, the "One Belt and One Road Financial Alliance" ("Alliance") initiated by us was formed. The Alliance currently has 23 financial institution members located in the provinces and regions along the new Silk Road Economic Belt. Leveraging the Alliance, we seek to cooperate with other members in trade finance, retail banking, financial markets and other business lines to jointly expand business coverage and customer base, thereby leveraging complementary advantages and achieving win-win cooperation among the members and providing solid financial support to the implementation of the "One Belt and One Road" national strategy.
- We have established extensive strategic cooperation with Qingdao Port and set up a port sub-branch. Apart from serving the port, the sub-branch also allows us to obtain first-hand knowledge of the trade finance needs of the customers operating at the port, which helps us formulate supply chain finance solutions and expand our product offerings, thereby enabling us to provide comprehensive services to both the upstream and downstream customers of Qingdao Port. For example, we introduced the "Customs Duty Guarantee Pass (關保通)" service. With this system, trading companies are able to clear customs before paying duty. The arrangement eased the financial burden of our corporate customers and accelerated the clearance process. At the same time, this service helps us attract deposits and generates fee income, thus resulting in a win-win outcome.
- Qingdao has close trading relationships with Japan and South Korea due to its geographical location, and it is also the city with the most South Korean companies in China. We have entered into a strategic cooperation agreement with Hana Bank to fully cooperate in trade finance, corporate banking and financial markets operations and have completed the first RMB-denominated loan issued in South Korea by a Chinese bank. We have also entered into a strategic financial cooperation agreement with another Korean bank, Busan Bank, to cooperate in payment settlement, trade finance and financial markets businesses to support the development of strategic customers of both parties. We believe the progressive development of the China-Japan-South Korea Free Trade Zone will boost the trading activities among the countries and bring further business opportunities.
- We are one of the first City Commercial Banks in China to establish a dedicated business unit to carry out trade finance business. The implementation of a specialized unit has led to rapid growth in our trade finance business. Fee and commission income from the trade finance and international settlement business grew at a CAGR of 30.9% from 2012 to 2014. We were awarded the "Best City Commercial Bank in Trade Finance", the "Best Bank for Growth in Trade Finance" and the "Best City Commercial Bank in Trade Finance" jointly by the Trade Finance magazine and SINOTF.COM in 2012, 2013 and 2014, respectively. We believe that the implementation of the national strategy of "One Belt and One Road" will further spur the growth of our trade finance business.

We have long been analyzing the economy and industrial chains in Shandong Province and Qingdao. Through constant innovation, we have aligned our business development with the changing structure of the local economy in order to capitalize on its growth. Although Shandong Province is home to a large and robust economy, the value added from its financial industry accounted for less than 5% of its GDP in 2014. In addition, there are currently no banks listed on domestic or international stock exchanges in Shandong. As such, Shandong Province's financial sector requires further restructuring and transformation, signifying tremendous development potential. In particular, Qingdao is a pioneer in the transformation of the financial industry in Shandong Province. In 2014, Qingdao was approved as the Wealth Management Comprehensive Financial Reform Pilot Zone (財富管理金融綜合改革試驗區) by the State Council. We had formulated wealth management business strategies ahead of the announcement of this policy, which allowed us to capture the opportunities arising from the policy and the tremendous growth potential of the wealth management business.

OUR BUSINESS STRATEGIES

Our strategic goal is to become a City Commercial Bank with distinct business features. To achieve this goal, we will implement the following business strategies:

Continuously Enhancing Our Distinct "Interface Bank" Model

We will further enhance our distinct "Interface Bank" model to broaden our current strengths. To enrich our "Interface Bank" model, we will continue to develop its customer base, deepen the integration of customer resources and conduct customer-related data collection and analysis. As a result of the aforementioned, we believe "Interface Bank" will become one of our unique and core competitive advantages. We plan to

- leverage on the "One Belt and One Road Financial Alliance" platform and our close business relationship with the port and the customs to set up a channel to provide services related to international logistics businesses in these regions and implement the national "One Belt and One Road" strategy;
- explore "Public-Private Partnership" ("PPP") and promote the marketization of the government and society's resources. By leveraging our strengths in information technology and partnership with public sectors such as healthcare, education, civil administration, social insurance and housing provident fund, we strive to further expand our customer base;
- reproduce the successful model of online supply chain financial services and, through partnering with our core corporate customers, such as Haier, to extend our financial services to the enterprises in their upstream and downstream chains and expand our online financial services;
- further utilize the customer and information resources of our public service partners. For example, we plan to use big data analytics to carry out targeted marketing and proactively extend credit to quality customers; and
- expand the scope and depth of our cooperation with other financial institutions. As the lead bank of the Shandong interbank strategic financial cooperation program, we plan to provide participants of this program with various financial solutions in respect of financing, wealth management, trade finance and settlement services, thereby significantly expanding our business coverage. We will also further expand our distribution network for financial products through this program.

Striving to Become the Most Convenient Retail Bank

We plan to further develop our retail banking business in order to improve our business mix. This will help us establish a stable and loyal customer base, allowing us to effectively respond to the challenges arising from the interest rate liberalization and to increase our fee and commission income. We plan to target our services to communities and small and micro enterprises. By recognizing the financial service needs of individuals, families and small and micro merchants with respect to their consumption, businesses and investments, we strive to become a one-stop retail bank that provides diverse products and convenient services. We plan to

- further refine our bulk customer acquisition model for communities, industrial parks and campuses and provide the most convenient and attractive services. We will develop multi-functional bank cards that can be integrated into the daily lives of individuals. Our transportation cards will enable payments for metro, buses, highways and express rail, while incorporating other features such as quick pass and special-shaped cards. We will continue to provide a comprehensive range of collection and payment services;
- further integrate our online and offline service channels to offer more convenient financial services to our retail customers. On the offline end, we will continue to establish extensive community financial platforms. On the online end, we will improve mobile banking, WeChat banking and direct banking. Collectively, these measures will enable us to adapt to evolving customer behaviors and enhance customer experience;
- continue to establish a comprehensive consumer finance platform and refine our product offerings by catering to our customers' financial service needs at different life stages. We will expand our network of merchant partners to enhance the service capabilities of our consumer finance platform. We will focus on increasing the number of products sold to each customer and family through in-depth marketing, thereby strengthening our customer loyalty;
- fully utilize data gathered from our customer fund flows, POS terminals, and payroll services. We will also actively cooperate with third parties in possession of large amounts of data such as housing provident funds and the customs. We will strengthen our big data analysis and application capability and acquire customers in bulk; and
- further enhance our service capabilities for high-end customers in addition to strengthening our position in the mass market. Leveraging local residents' wealth accumulation and the commencement of the Qingdao Wealth Management Comprehensive Financial Reform Pilot Zone, we aim to provide services such as overseas investments, family trust and customized wealth management via partnerships with other institutions. We will also continue to organize training programs for financial planners to enhance their professional capabilities.

Developing Corporate Banking Core Competitiveness in Trade Finance, Public Sector Finance and Other Selected Sectors

We have fully taken into account of our strengths and fundamentals when devising our corporate banking business strategies. We focus on particular businesses with familiarity and expertise such as trade finance, public sector finance and the sectors positioned to benefit from the regional economic transformation. We are dedicated to becoming an expert in these areas and developing greater strength and reputation. We plan to

- establish a leading trade finance platform in China. Leveraging Qingdao's prime location as the gateway of the new Silk Road Economic Belt and its inherent geographical advantages, we plan to enhance our strategic cooperation with the port and provide supply chain financing solutions for the sea-land intermodal transportation logistics network of the port, meeting their corporate customers' financing needs for procurement, production and distribution. In May 2015, we were selected by the PRC General Administration of Customs as the only City Commercial Bank among the five pilot banks to develop the electronic customs duty guarantee system that is compatible with the customs' new clearance model. As such, we have first mover advantage to launch related businesses. This will enable us to acquire a large number of trade finance customers, especially those along the new Silk Road Economic Belt;

- continue to develop public sector finance. We will further expand our customer base in the public sector to increase their deposits and fund flow with us. Furthermore, we will leverage big data accumulated from public sector finance to support our business development and risk management; and
- develop expertise in selected sectors. Building on the experience of our technology sub-branch and port sub-branch, we will continue to strategically develop our business in key industries and emerging industries that are positioned to benefit from the regional economic transformation. For example, in light of the industry characteristics and development potential of the Blue Economic Zone in the Shandong Peninsula, we are committed to developing expertise in serving the Blue Economy.

Expanding Our Financial Market Business through Resources Integration and Financial Innovation

China's financial industry is currently undergoing a transformation towards a full service model. We plan to actively expand our financial market business to overcome the general challenges facing City Commercial Banks, including commoditized business and geographic restrictions. We will continue to expand the scale of our financial market business and develop it into an important source of our income. We plan to

- further enhance our "Interface Bank" model to systematically identify areas of potential cooperation with other small and medium financial institutions;
- strengthen the resources integration capabilities of our investment banking business. We will optimize our employee incentive mechanisms in order to attract and cultivate talent and build a professional investment banking team. We also aim to enhance our client service and financial product development capabilities. This could help connect our investment banking and corporate banking businesses and enable us to better serve the investment and financing needs of our corporate customers, achieving synergistic cooperation;
- strengthen our research on the macroeconomy and markets and enhance our trading and investment management capabilities. We will keep pace with innovations in capital markets, obtain a wide range of licenses, and explore new products and models of asset allocation to further meet our customers' needs in wealth management and securities investment. We will continue to focus on the security of our customers' assets in our wealth management business, while maximizing risk-adjusted returns from our securities investment business; and
- actively explore comprehensive financial operations. To the extent permissible under the relevant regulations, we seek to opportunistically enter into areas of private equity, mutual

fund and financial leasing, to enhance our comprehensive service capabilities for corporates, individuals and other financial institutions, so as to satisfy their diverse needs and strengthen customer loyalty.

Continuously Improving Risk Management to Satisfy Our Business Development and Innovation Needs

China's New Normal Economy and the accelerated opening up of its banking industry present both challenges and opportunities to banks' risk management. We will make continuous efforts to improve our enterprise risk management system and enhance our risk management capabilities, to adapt to the evolving business environment. We strive to achieve high quality and rapid business growth within acceptable risk parameters. We plan to

- adopt portfolio management tools to optimize our credit asset mix. We will refine a variety of risk management tools, such as industry-specific credit policies, customer rating systems, credit approval authorization and portfolio monitoring and pre-warning to enhance our risk anticipation and the implementation of our credit policies;
- continue to apply advanced risk management techniques. We will improve our business processes and implement online management to reduce operational risk incidents. We will also explore the application of remote risk monitoring techniques in managing outlets outside of Qingdao;
- enhance our risk management strategic planning through better risk anticipation. We will perform in-depth analysis on the economy, policies and market trends so as to update and refine our mid-to-long-term risk management strategic planning on a timely basis; and
- continue to develop our risk management culture and adhere to prudent risk appetite. We strive to raise our employees' awareness on the importance of enterprise risk management and compliance. We will prioritize risk management in developing all new products and new businesses.

OUR PRINCIPAL BUSINESS LINES

Our principal business lines include corporate banking, retail banking and financial market businesses. The following table sets forth the contribution of each line of business to our total operating income for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2012		2013		2014		2014 (unaudited)		2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)									
Corporate banking business	2,008	69.6%	2,270	63.8%	2,460	56.4%	1,304	58.8%	1,307	54.5%
Retail banking business	453	15.7	660	18.6	882	20.2	435	19.6	501	20.9
Financial market business	408	14.1	593	16.7	986	22.6	479	21.6	583	24.3
Others[(1)]	18	0.6	33	0.9	37	0.8	(1)	0.0	8	0.3
Total	**2,887**	**100.0%**	**3,556**	**100.0%**	**4,365**	**100.0%**	**2,217**	**100.0%**	**2,399**	**100.0%**

(1) Consist primarily of income and expenses that are not directly attributable to any specific business segment.

Corporate Banking Business

Overview

We provide our corporate customers with diversified financial products and services, including corporate loans, trade finance and international settlement services, corporate deposits, and wealth management services. Our corporate customers include industrial and commercial enterprises, government agencies and public institutions. Corporate banking business is one of our most important sources of operating income.

In 2012, 2013 and 2014, operating income from our corporate banking business accounted for 69.6%, 63.8% and 56.4% of our total operating income, respectively. For the six months ended June 30, 2015, operating income from our corporate banking business accounted for 54.5% of our total operating income.

We have established a corporate banking department, a trade finance business unit, a small business financing department and a bill center at our head office to operate and manage our corporate banking business. We provide differentiated products and services to meet the diverse needs of our corporate customers. We seek to continue to build up and maintain long-term and full-service business relationships with our core corporate customers. Furthermore, it is our strategy to leverage our core corporate customers to further develop quality customers from their related entities as well as their upstream suppliers and downstream distributors in the industry chain.

In recent years, in order to further strengthen our corporate banking business, we have strategically established various featured and dedicated sub-branches to satisfy the specific financial needs from certain industries and areas. For instance, we have established a technology sub-branch to serve local technology enterprises, which is supported by the local government and its science and technology department. Focusing on serving the port, the enterprises in the port area and their customers, our port sub-branch provides comprehensive and integrated financial products and services covering both domestic and international businesses to customers in both upstream and downstream industries served by the port.

Our corporate loans increased steadily from RMB34,458 million as of December 31, 2012 to RMB51,444 million as of June 30, 2015. Our corporate deposits increased from RMB53,431 million as of December 31, 2012 to RMB60,851 million as of June 30, 2015. As of June 30, 2015, we had 2,309 corporate loan customers and 57,809 corporate deposit customers.

Corporate Loans

Corporate loans have been the largest component of our loan portfolio. As of December 31, 2012, 2013 and 2014 and June 30, 2015, our corporate loans amounted to RMB34,458 million, RMB42,121 million, RMB46,769 million and RMB51,444 million, respectively, accounting for 75.4%, 75.7%, 74.3% and 73.5%, respectively, of our total loans to customers.

We provide our corporate customers with loan products, including working capital loans, fixed asset loans, import bill advance and export bill purchase, and discounted bills, in order to satisfy their diverse financing needs. The following table sets forth our corporate loans by product type as of the dates indicated.

	As of December 31,						As of June 30,	
	2012		2013		2014		2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Working capital loans	22,281	64.6%	29,678	70.5%	33,138	70.8%	36,788	71.6%
Fixed asset loans	8,188	23.8	9,551	22.7	9,759	20.9	11,285	21.9
Import bill advance and export bill purchase	2,176	6.3	1,429	3.4	1,034	2.2	253	0.5
Discounted bills	1,752	5.1	1,400	3.3	2,552	5.5	2,784	5.4
Others(1)	61	0.2	63	0.1	286	0.6	334	0.6
Total corporate loans	**34,458**	**100.0%**	**42,121**	**100.0%**	**46,769**	**100.0%**	**51,444**	**100.0%**

(1) Consist primarily of advances under bank acceptances and letters of credit issued by us.

We also tailor our financial products and services to cater to the diverse needs of our corporate loan customers of all sizes. The following table sets forth our corporate loans by the size of our corporate banking customers as of the dates indicated.(1)

	As of December 31,						As of June 30,	
	2012		2013		2014		2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Large enterprises	6,839	19.9%	9,496	22.5%	10,143	21.7%	11,391	22.1%
Medium enterprises	12,720	36.9	15,242	36.2	13,878	29.7	15,323	29.8
Small enterprises	10,729	31.1	13,939	33.1	19,471	41.6	21,119	41.1
Micro enterprises	4,170	12.1	3,444	8.2	3,277	7.0	3,611	7.0
Total corporate loans	**34,458**	**100.0%**	**42,121**	**100.0%**	**46,769**	**100.0%**	**51,444**	**100.0%**

(1) We classify our corporate loan customers into large, medium, small and micro enterprises in accordance with the Regulation on Classification Standards of Small and Medium Enterprises.

Loans to Large and Medium Enterprises

Our large and medium corporate loan customers consist primarily of enterprises in the manufacturing, wholesale and retail, and leasing and commercial services industries. The balance of our loans to large and medium enterprises in these three industries generally accounted for more than 50% of our total loans to large and medium enterprise customers. In recent years, we have increased loans to large and medium enterprises in the public welfare industry, including enterprises providing water, electricity, gas, heating, healthcare and public transportation services. We have also provided credit support for the construction of large infrastructure projects in Qingdao, including the port and the Qingdao Metro Group. As of December 31, 2012, 2013 and 2014 and June 30, 2015, our loans to large and medium enterprises amounted to RMB19,559 million, RMB24,738 million, RMB24,021 million and RMB26,714 million, respectively. As of June 30, 2015, we had 627 large and medium corporate loan customers.

Loans to Small and Micro Enterprises

We established a small enterprise financing department at our head office in 2009 to operate our loan business for small and micro enterprises. This department is responsible for the development, promotion and marketing of financing products, as well as review and approval of loan applications from small and micro enterprises.

Catering to the financing needs of our small and micro enterprise customers characterized by "small, frequent and urgent", we have adopted a "dual review and approval" mechanism for loans to small and micro enterprises. The mechanism requires review and approval by two authorized credit reviewers from the credit approval department and the small enterprise financing department, respectively, of our head office. We have also set time limits for approving loans to small and micro enterprises and reduced the loan approval steps in order to streamline the approval process. As such, the efficiency of our loan approval process has improved. In addition, based on the operational characteristics and risk profile of small and micro enterprises, we have set up a specific assessment system. As compared with loans to large and medium enterprises, we emphasize on the analysis of non-financial factors of small and micro enterprises, such as "three qualities" including their products, credit worthiness and collateral, "three bills" including water and electricity bills and tax filings, and "three flows" including inventory, information and cash flows, to effectively identify and prevent risks. We believe that these evaluation approaches are more practical and allow us to assess the operating conditions of small and micro enterprises more accurately compared to traditional approaches so as to effectively prevent and control risks and increase operating efficiency.

Furthermore, we have also launched the "1+N" business model for bulk marketing of our products to small and micro enterprises along the supply chain. While granting general secured loans to our core large corporate customers, we also provide credit to various upstream and downstream qualified small and micro enterprises related to such corporate customers.

We have developed seven major series and 41 loan products for small and micro enterprises to cater to their diverse financial needs. For example, our Qing Yi Dai (青易貸) product mainly aims to provide financial support to young entrepreneurs in various industries and is a well-known service brand in Shandong Province. In cooperation with relevant government agencies and guarantee companies, our Ke Yi Dai (科易貸) product aims to solve financing challenges that small and micro innovative enterprises may face in operating their businesses.

As of December 31, 2012, 2013 and 2014 and June 30, 2015, our loans to small and micro enterprises amounted to RMB14,899 million, RMB17,383 million, RMB22,748 million and RMB24,730 million, respectively, representing a CAGR of 23.6% from 2012 to 2014. As of June 30, 2015, we had 1,682 small and micro enterprises loan customers. Our financial services to small and micro enterprises have received various awards and recognitions, including the "Outstanding Financial Services Provider to Small and Micro Enterprises in the Banking Industry in Qingdao in 2013" (2013年度青島銀行業小微企業金融服務先進單位) by CBRC Qingdao Office.

Trade Finance and International Settlement Business

In August 2010, our international business department was renamed the trade finance business unit. We believe we were the first City Commercial Bank in China to introduce a business unit management model for trade finance business. We have formed professional teams performing functions of specialized marketing, approval and business management, and have built a centralized management system to achieve coordinated and balanced marketing and risk control.

Our trade finance and international settlement business contributes a significant part of our fee and commission income. In 2012, 2013 and 2014, our fee and commission income from trade finance and international settlement business amounted to RMB196 million, RMB221 million and RMB336 million, respectively. For the six months ended June 30, 2015, our fee and commission income from trade finance and international settlement business amounted to RMB132 million, representing 32.3% of our fee and commission income. In 2012, 2013 and 2014, we were awarded "The Best City Commercial Bank in Trade Finance" (最佳貿易金融城商行), "The Best Bank for Growth in Trade Finance" (最佳貿易金融成長銀行) and "The Best City Commercial Bank in Trade Finance" (最佳貿易金融城商行), respectively, jointly by Trade Finance magazine (《貿易金融》雜誌) and SINOTF.COM (中國貿易金融網).

Products and Services

Our international settlement business has a well-developed product portfolio with settlement accounts in multi-currencies, including U.S. dollar, Euro, Hong Kong Dollar and Australian dollar accounts. As of June 30, 2015, we established agency bank relationships with more than 400 banks overseas to facilitate international settlement services to our customers. In 2012, 2013 and 2014, our international settlement transactions amounted to US$3,048 million, US$2,833 million and US$2,989 million, respectively. For the six months ended June 30, 2015, our international settlement transactions amounted to US$830 million and as of June 30, 2015, we had approximately 660 international settlement corporate customers.

In addition to offering traditional international settlement business products and services, we have also introduced Mao Jin Tong (貿金通) to meet diverse financing needs of the entire supply chain, a designated product brand covering six major product segments, including structured purchase order financing, letters of credit for domestic trades, domestic and international factoring, inventory financing, cross-border financing in Renminbi and letters of guarantee. As such, we have established a comprehensive supply chain product portfolio with a leading position in the trade finance industry.

Leveraging on our relationships with core enterprises in the supply chain of different market segments, we market our trade finance business to these enterprises' upstream suppliers and downstream distributors and assimilate our trade finance services into each segment of their supply chains. We have launched an online supply chain finance platform based on factoring and inventory finance modules, which enables us to standardize our operational procedures. The system also generates risk alerts and assists us in monitoring collateral on an ongoing basis to improve our risk management capabilities. Currently, we actively explore end-to-end online supply chain finance models with a number of our large corporate customers in Shandong Province. For example, through our access to Haier, we integrate our interbank payment and order financing business with its online order placement and goods release activities and provide its suppliers with a broad range of online financial services to support their order placement, financing, repayment and goods releases. This online trade finance business model is seen to improve customer experience, ensure the truthfulness of the underlying transactions and control our risks.

Strategic Cooperation

Leveraging on Qingdao's geographical location as a coastal city, we have entered into strategic cooperation with Qingdao Port, one of the largest ports in the world, since October 2013 to expand our international customer base. We provide credit support to the port for its infrastructure construction.

We have established a sub-branch in Qingdao Port to provide services to the port as well as its upstream and downstream customers. We will launch our "Certified Warehouse Receipt" (倉單保付) business jointly with Qingdao Port, through which we guarantee the payments against the warehouse receipts issued by Qingdao Port, to further expand our international business customer base and enhance our product innovation capability. This product facilitates Qingdao Port's customers' access to bank financing and brings us fee income. Under our agreement with Qingdao Port, we will make payment on the rejected warehouse receipts, for which we will claim reimbursement from Qingdao Port. We will include our total exposure on these warehouse receipts in the overall credit line granted to Qingdao Port. We will also implement rigorous post-guarantee management through regular visits and close monitoring of Qingdao Port's cargo supervision practices and the transfers of the warehouse receipts guaranteed by us. In addition, we have formulated and strictly implemented policies, procedures and operational manuals on pledges of warehouse receipts to prevent and control risks. Our risk management has enabled us to successfully avoid certain significant risk incidents in the region.

To meet the needs of the customs and our customers, we launched our "Customs Duty Guarantee Pass" (關保通) business, offering online customs verification of letters of guarantee so as to resolve difficulties in authenticating letters of guarantee. In March 2015, with the approval of the PRC General Administration of Customs, we launched "Bank-Customs Duty Pass" (銀關稅費通), an electronic payment platform for the settlement of customs duties and fees. In May 2015, we were selected by the PRC General Administration of Customs as the only City Commercial Bank among the five pilot banks to develop the electronic customs duty guarantee system that is compatible with the new customs' clearance model. As such, we have first-mover advantage to launch related businesses. As Qingdao is a key city in the "One Belt and One Road" strategy, Qingdao Customs has been chosen by the PRC General Administration of Customs to spearhead the "Unified Customs Clearance System Along the Silk Road Economic Belt". We seek to integrate our business into the logistics flows and customs clearance system by leveraging on the local logistics system and new policies of the PRC General Administration of Customs, which will help us grow our trade finance services for enterprises along the Silk Road Economic Belt.

Upon the establishment of the "One Belt and One Road Financial Alliance", we have opened our electronic platform linked to the customs of the Alliance members, providing them with the convenience of online customs clearance. We also issue guarantees to support the payment of the customs' levies and fees by the customers of the Alliance members. Such services not only allow these customers to clear customs procedures more efficiently and improve their cash flows, but also help us increase our fee and commission income and assist the Alliance members in serving their clients. In addition, leveraging our strategic cooperation with the ports in Shandong Province, we are well-positioned to provide efficient services at competitive prices to the customers of the Alliance members in the various processes of their import and export business, including loading, unloading, logistics and storage. Such services are expected to improve these customers' loyalty to the Alliance members and enhance the overall profitability and influence of the Alliance.

Corporate Deposits

We offer our corporate customers time deposits and demand deposits in Renminbi and major foreign currencies (including U.S. dollar, Hong Kong Dollar and Euro). We currently offer Renminbi-denominated time deposits with a maximum tenor of five years in general. The following table sets forth our corporate deposits by product type as of the dates indicated.

	As of December 31,						As of June 30,	
	2012		2013		2014		2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Demand deposits	27,637	51.7%	32,135	50.2%	34,587	53.8%	27,970	46.0%
Time deposits	25,794	48.3	31,905	49.8	29,678	46.2	32,881	54.0
Total corporate deposits	**53,431**	**100.0%**	**64,040**	**100.0%**	**64,265**	**100.0%**	**60,851**	**100.0%**

As of December 31, 2012, 2013 and 2014 and June 30, 2015, our corporate deposits amounted to RMB53,431 million, RMB64,040 million, RMB64,265 million and RMB60,851 million, respectively, accounting for 70.6%, 66.5%, 63.2%, and 59.6%, respectively, of our total deposits.

Wealth Management Services

Our wealth management products are distributed to corporate, retail and interbank customers. We provide customized wealth management products to corporate customers under our Su Jue Su Sheng (速決速勝) brand and provide value-added services. In 2012, 2013 and 2014, the total transaction volume of our RMB-denominated wealth management products sold to corporate customers amounted to RMB11,261 million, RMB27,193 million and RMB53,880 million, respectively. For the six months ended June 30, 2015, the total transaction volume of our RMB-denominated wealth management products sold to corporate customers amounted to RMB12,723 million. As of December 31, 2012, 2013 and 2014 and June 30, 2015, the balance of our RMB-denominated wealth management products sold to corporate customers amounted to RMB1,205 million, RMB1,034 million, RMB2,992 million and RMB2,366 million, respectively.

Customer Base

We have established a large and stable corporate customer base in Shandong Province, especially in Qingdao. Our corporate customers consist primarily of various industrial and commercial enterprises, government agencies and public institutions. As of June 30, 2015, we had 57,809 corporate deposit customers and 2,309 corporate loan customers.

We have focused on developing business relationship with large corporate customers and continued to expand and maintain our core customer base in Qingdao and other cities in Shandong Province to further reinforce our business foundation. For example, we have established stable business cooperation with Shandong Publication Group Co., Ltd. (山東出版集團有限公司), Shandong Dazhong Newspaper (Group) Co., Ltd. (山東大眾報業（集團）有限公司), Shandong University of Science and Technology (山東科技大學), Qingdao Energy Group Co., Ltd. (青島能源集團), Qingdao Port and the Affiliated Hospital of Qingdao University (青島大學附屬醫院).

We leverage the advantage of being a locally incorporated bank to provide our large corporate customers with efficient financial services. We also seek to promote our retail banking business through cross-selling.

We also seek to develop quality small and micro enterprise customers in Shandong Province. In addition to providing standardized financial services to small and micro enterprises, we also provide financial service solutions tailored to the geographical characteristics of Shandong Province.

Retail Banking Business

We offer a wide range of products and services to our retail banking customers, including loans, deposits, bank cards, and other fee- and commission-based services. Our retail banking business has grown significantly in recent years. In 2012, 2013 and 2014, operating income from our retail banking business accounted for 15.7%, 18.6% and 20.2% of our total operating income, respectively. For the six months ended June 30, 2015, operating income from our retail banking business accounted for 20.9% of our total operating income.

As of June 30, 2015, our personal deposits amounted to RMB40,933 million and our personal loans amounted to RMB18,515 million. As of December 31, 2012, 2013 and 2014 and June 30, 2015, our personal deposits accounted for 29.0%, 33.2%, 36.6%, and 40.2%, respectively, of our total customer deposits, and our personal loans accounted for 24.6%, 24.3%, 25.7%, and 26.5%, respectively, of our total customer loan balance. As of June 30, 2015, we had approximately 2.53 million retail customers, including 40,314 personal loans customers.

Personal Loans

We provide personal loans including personal business loans, residential mortgage loans and person consumption loans, under our Qing Yin Hai Dai (青銀海貸) brand.

As of December 31, 2012, 2013 and 2014 and June 30, 2015, our personal loans amounted to RMB11,265 million, RMB13,509 million, RMB16,219 million and RMB18,515 million, respectively, representing 24.6%, 24.3%, 25.7% and 26.5% of our total loans to customers, respectively. The following table sets forth our personal loans by product type as of the dates indicated.

	As of December 31,						As of June 30,	
	2012		2013		2014		2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Personal business loans	6,520	57.9%	7,754	57.4%	7,693	47.4%	7,044	38.0%
Residential mortgage loans	3,131	27.8	3,951	29.2	6,351	39.2	9,089	49.1
Personal consumption loans	1,084	9.6	979	7.3	1,217	7.5	1,443	7.8
Others[(1)]	530	4.7	825	6.1	958	5.9	939	5.1
Total personal loans	**11,265**	**100.0%**	**13,509**	**100.0%**	**16,219**	**100.0%**	**18,515**	**100.0%**

(1) Consist primarily of personal commercial property loans and personal commercial automobile loans.

Personal Business Loans

We provide personal business loans for individual business owners and other retail customers engaged in business activities. Personal business loans are offered according to the principle of "industry white list, bulk marketing, standardized products and streamlined operation (行業准入，批量開發，標準化產品，流程化操作)" with "one circle, two chains and one feature

(一圈兩鏈一特色)" as our target market ("one circle" refers to various business communities; "two chains" refers to upstream and downstream industry chain and supply chain of our core customers; "one feature" refers to distinct and competitive industries located in the regions of our outlets). First, we conduct continuous research and closely monitor the potential markets so as to determine target markets. Second, based on our big data analysis of the industries and operation models of our customers, we have established unified customer onboarding criteria. We seek to improve our efficiency through streamlined operation.

To better serve the needs of small and micro enterprises, we offer Huo Ban Dai (夥伴貸), a loan product to those merchants located in the regions of our outlets, and Jie Suan Dai (結算貸), a loan product to our existing customers who maintain settlement accounts with us.

As of December 31, 2012, 2013 and 2014 and June 30, 2015, our personal business loans amounted to RMB6,520 million, RMB7,754 million, RMB7,693 million and RMB7,044 million, respectively, representing 57.9%, 57.4%, 47.4% and 38.0% of our total personal loans, respectively.

Residential Mortgage Loans

We provide our retail customers with residential mortgage loan products to finance their purchases of new or second-hand residential properties. We have been focusing on residential mortgage loans given their low capital charge and high growth potential of our customer base after the government adjusted real estate related policies in 2014.

As of December 31, 2012, 2013 and 2014 and June 30, 2015, our residential mortgage loans amounted to RMB3,131 million, RMB3,951 million, RMB6,351 million and RMB9,089 million, respectively, representing 27.8%, 29.2%, 39.2%, and 49.1% of our total personal loans, respectively. Our residential mortgage loans grew at a CAGR of 42.4% from 2012 to 2014.

Personal Consumption Loans

We provide our retail customers with a variety of personal consumption loan products to support their personal and household consumption. We have built up consumer finance platforms, which allow merchants to gain direct access to target customers and offer our customers with premium goods at favorable prices, beneficial to all. For example, at the beginning of 2015, we introduced Happy Family Plan (幸福家庭計劃) as our consumer finance brand, under which we have developed a series of consumer finance products to meet customers' consumption demands for home purchase, house renovation, car purchase, wedding and parenting, in order to serve our customers at different levels and various life stages. We have launched An Ju Dai (安居貸), a loan product providing packaged financial solutions, such as purchases and renovations of houses, and purchases of parking lots and home appliances. We have launched Xing Fu Dai (幸福貸) loan product, in collaboration with wedding companies, which has enabled us to provide comprehensive financial services to wedding couples. We also provide our customers with Che Yi Dai (車易貸), an unsecured loan product with low down payment.

As of December 31, 2012, 2013 and 2014 and June 30, 2015, our personal consumption loans amounted to RMB1,084 million, RMB979 million, RMB1,217 million and RMB1,443 million, representing 9.6%, 7.3%, 7.5% and 7.8% of our total personal loans, respectively.

Personal Deposits

We offer retail banking customers a variety of demand deposit and time deposit products. The following table sets forth our personal deposits as of the dates indicated.

	As of December 31,						As of June 30,	
	2012		2013		2014		2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Time deposits	17,415	79.3%	26,666	83.5%	30,704	82.4%	33,073	80.8%
Demand deposits	4,544	20.7	5,278	16.5	6,553	17.6	7,860	19.2
Total personal deposits	**21,959**	**100.0%**	**31,944**	**100.0%**	**37,257**	**100.0%**	**40,933**	**100.0%**

As of December 31, 2012, 2013 and 2014, and June 30, 2015, our total personal deposits amounted to RMB21,959 million, RMB31,944 million, RMB37,257 million and RMB40,933 million, respectively, accounting for 29.0%, 33.2%, 36.6% and 40.2% of our total deposits, respectively, representing a CAGR of 30.3% from 2012 to 2014.

Bank Card Services

We issue Renminbi-denominated debit cards, *Hai Rong Card* (海融卡), to retail customers who maintain deposit accounts with us. We currently offer Hai Rong Card in six classes, including basic card, gold card, platinum card, diamond card, wealth card and private banking card, based on the value of their personal financial assets. For example, we issue private banking cards to our retail customers with financial assets of more than RMB8 million in accounts with us. As of December 31, 2012, 2013, 2014, and June 30, 2015, we had issued a total of approximately 1.04 million, 1.43 million, 2.05 million and 2.24 million debit cards, respectively.

We are committed to developing an industry-leading all-in-one IC card, which integrates the key functionalities to meet people's everyday and financial needs. To facilitate convenient transportation, we have initiated the cooperation with Qingdao Metro Group and launched financial IC cards under the PBoC 3.0 standards, which enables our bank cards with a quick pass feature to function as metro tickets. The payment for metro tickets is made from an e-cash account of the financial IC cards, which is separate from the bank card's settlement account to ensure bank account security. We also plan to include more payment functions for public transportation fares and highway toll fees to the card. In addition, we introduced the financial all-in-one IC card in closed areas such as industry parks, school campuses and communities to provide convenience and discounts to our customers so as to expand our customer base and to enhance customer loyalty.

In terms of innovative payments, we introduced "Bank of Qingdao Mobile Wallet" (青島銀行手機錢包) in 2014. We are the first commercial bank in China approved by PBoC to launch anonymous mobile e-cash wallets. In the same year, we also launched primary-account-linked mobile wallets with near-field payments and all-in-one IC card functions. As a result, we are the first commercial bank in China that has directly cooperated with telecommunication operators to provide one-stop mobile wallet issuance services. In 2015, we were awarded "Best Ten Financial Innovation Award for Online Banking" (十佳互聯網金融創新獎) by The Chinese Banker (銀行家) for our innovative mobile wallet products.

We obtained the qualification to issue public services cards in 2010. We are in the process of applying for the qualification to issue credit cards. We have formulated a series of strategies and plans to develop our credit card business. Our public services cards primarily target employees of government agencies and administrative and public institutions funded by the government. Our public services cards have an overdraft function, which prepares us for our future credit card business. As of December 31, 2012, 2013, 2014 and June 30, 2015, we had issued a total of 3,382, 9,424, 16,504 and 17,990 public services cards, respectively.

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

Our other fee- and commission-based retail banking products and services consist primarily of wealth management and investment services and payroll and payment services.

Wealth Management and Investment Services

Our wealth management and investment services consist primarily of wealth management services, agency services for PRC government bonds, agency services for financial products and other investment services.

Wealth Management Services. We provide our retail customers with wealth management products and services primarily under the *Hai Rong Wealth* (海融財富) brand. We provide five major categories of close-ended wealth management products, namely, *An Ying* (安贏), *Wen Ying* (穩贏), *Chuang Ying* (創贏), *Zun Xiang* (尊享) and *Qian Chao* (錢潮). Both our *An Ying* and *Wen Ying* products are low risk, principal-protected wealth management products, while the former is return-guaranteed and the latter is return-variable. These products are suitable for customers with low risk tolerance. The other three series of products are non-principal-protected with variable returns, mainly targeting customers with medium risk tolerance and relatively high return expectations. We also introduced daily redeemable open-ended products *Tiantian Kaixin* (天天開薪) in 2014. We plan to further diversify our product portfolio by introducing rolling products and net asset value products.

To provide customers with more convenient wealth management services, we introduced night-time wealth management services in 2013. To meet our customers' diverse needs, we introduced IPO subscription products in 2015 and intend to introduce more equity-linked products.

Our retail wealth management business experienced rapid growth in recent years. In 2012, 2013 and 2014, the annual sales of our retail wealth management products reached RMB14,854 million, RMB35,056 million and RMB76,592 million, respectively, representing a CAGR of 127.1%. For the six months ended June 30, 2015, we sold retail wealth management products with a total transaction volume of RMB46,084 million, representing an increase of 52.6% as compared with the corresponding period of the previous year. As of June 30, 2015, the balance of the Renminbi-denominated wealth management products we sold to our retail customers was RMB24,211 million. As of the same date, we had approximately 150,000 retail wealth management customers.

Our wealth management service has become an important marketing platform to attract quality customers and cross-sell other financial products and services. We estimate that there will be an increasing demand from retail customers for comprehensive and personalized wealth management services apart from traditional banking products and services in light of the economic growth in Shandong Province and an increase in disposable income per capita.

Agency Services for PRC Government Bonds. We are a member of the underwriting syndicate of treasury savings bonds of MOF and offer agency services to our retail customers in connection with their purchase and redemption of PRC government bonds. In 2012, 2013 and 2014 and for the six months ended June 30, 2015, total sales of the PRC government bonds for which we acted as a sales agent, was RMB617 million, RMB781 million, RMB878 million and RMB414 million, respectively.

Agency Services for Financial Products and Other Investment Services. Our agency services for financial products and other investment services mainly include fund distribution, insurance agency and precious metals trading services. As of June 30, 2015, we provided agency service for 318 fund products and 108 life and property insurance products. We conduct agency sales of gold and silver coins, gold bullion and handicrafts made in gold and silver mainly through cooperation with certified professional entities. We also sell gold bullion to customers under our proprietary brand, "*Hai Rong Jin*" (海融金).

Payroll and Payment Agency Services

Payroll Services. We provide industrial and commercial enterprises, government agencies and public institutions in Qingdao with agency services for their payment of salaries, benefits, allowances and subsidies to their employees. Our payroll services have provided us with a stable source of personal deposits, allowed us to grow our mid- and high-end retail customer base and offered us more opportunities to cross-sell other products and services. We have participated in the distribution of demolition and relocation payments in major urban renewal projects in Qingdao and we are one of the major banks providing such payment agency services in the West Coast area of Qingdao, Shibei District, Licang District and Jiaozhou City (county-level) in Qingdao.

Payment Agency Services. We provide bill payment services, including those for utility bills, gas, heating, telephone bills, cable TV fees and bank card bills. We are one of the banks with the widest range of payment agency services in Qingdao.

In 2012, 2013 and 2014, net fee and commission income of our retail banking business was RMB15 million, RMB60 million and RMB51 million, respectively, representing a CAGR of 84.4%. For the six months ended June 30, 2015, net fee and commission income of our retail banking business was RMB87 million, representing an increase of 278.3% from the same period in 2014.

Customer Base

We have an extensive retail banking customer base in Shandong Province. The customer base of our retail banking business has expanded rapidly in recent years. As of December 31, 2012, 2013 and 2014 and June 30, 2015, we had approximately 1.58 million, 1.90 million, 2.36 million and 2.53 million retail banking customers, representing a CAGR of 22.2% from December 31, 2012 to December 31, 2014.

While expanding our retail banking customer base, we also seek to cultivate and develop high-end retail customers. As of December 31, 2012, 2013 and 2014 and June 30, 2015, we had 85, 1,993, 2,949 and 3,271 customers with personal financial assets of more than RMB2 million, including private banking customers. As of the same dates, the total financial assets in their accounts amounted to RMB1,426 million, RMB8,542 million, RMB12,667 million and RMB14,455 million, respectively, representing a CAGR of 198.0% from December 31, 2012 to December 31, 2014.

Financial Market Business

In response to the challenges from the liberalization of interest rates and increasing financial disintermediation in recent years, we have been proactively developing financial market business including money market, wealth management and investments segments. In 2014, we reorganized our financial market department into a dedicated business unit for asset management, trading, investment banking, research, risk control and operations.

Our financial market business has experienced significant growth in recent years. In 2012, 2013 and 2014, operating income from our financial market business amounted to RMB408 million, RMB593 million and RMB986 million, respectively, representing a CAGR of 55.5%. For the six months ended June 30, 2015, operating income generated from our financial market business amounted to RMB583 million, representing an increase of 21.7% from the same period in 2014.

We have obtained a broad range of licenses and qualifications in recent years, which has enabled us to participate in various market transactions and innovate our financial products. For example, we have obtained the qualification for underwriting financial bonds issued by the three policy banks and debt financing instruments issued by non-financial enterprises on the interbank bond market. We are a standing member of the Committee for Self-regulated Market Interest Rate Pricing Mechanism, which enables us to issue certificates of deposit on the interbank market. We also have the probationary market maker qualification on the interbank bonds market, enhancing our bond investment management and pricing capabilities. In addition, we are the only City Commercial Bank in Shandong Province with qualification for issuances of credit asset-back securities.

Money Market

We conduct the following money market transactions: (i) interbank lending, borrowing and deposit taking and placement; (ii) repurchase and reverse repurchase transactions with other members of China's interbank market; and (iii) spot trades in various bonds.

As a member of the PRC interbank bond market, we are ranked among the top nationally in terms of bond trading volume. In 2012, 2013 and 2014, our bond trading volume was RMB2,449.2 billion, RMB2,758.2 billion and RMB3,059.6 billion, respectively. In 2014, we ranked 36th among the financial institutions in the PRC and ranked 11th among City Commercial Banks in the PRC. We were awarded the "Top Settlement Member of the National Interbank Bond Market" for four consecutive years from 2011 to 2014 and several other awards, including the "2014 Most Influential Bank on the Interbank RMB Market" and the "Distinguished PRC Bond Market Dealer of the Year 2014", for our outstanding performance in the industry.

We have sought to be innovative in responding to interbank market trends and have maintained our leading position among local City Commercial Banks in Shandong Province in terms of business and product innovations. For example, we are one of the first banks in the PRC interbank market to issue financial bonds to fund the business development of small and micro enterprises in Shandong Province and the first City Commercial Bank in Shandong Province to issue CLOs.

Wealth Management

We have a well-known wealth management business. According to the 2014 Ranking of Bank's Capability in Wealth Management published by CnBenefit, a well-known online financial asset management platform, we ranked 5th among regional banks in China. Since 2014, the asset management division under our financial market business unit has been the designated department responsible for the management and operation of our overall wealth management business. We have been in compliance with applicable regulatory requirements in operating our wealth management business, including in the aspects of separate accounting, risk segregation, market conduct and centralized management. Our wealth management products are developed by our financial market business unit and distributed to corporate, retail and interbank customers. We seek to continue to integrate our wealth management operations among our major business lines and promote cross-selling by leveraging our broad customer base. See "—Corporate Banking Business—Wealth Management Services" and "—Retail Banking Business—Other Fee- and Commission-based Retail Banking Products and Services—Wealth Management and Investment Services". We have been expanding our distribution channels and diversifying our wealth management products and services. We began to issue "Hai Ying" (海赢) RMB-denominated interbank wealth management products in 2015.

In 2012, 2013 and 2014 and the six months ended June 30, 2015, the average size of each tranche of wealth management products we issued was approximately RMB45 million, RMB88 million, RMB124 million and RMB84 million, respectively. The following table sets forth breakdowns, by size of each tranche, of accumulative total amounts of the wealth management products issued by us during the periods indicated.

	Year ended December 31,						Six months ended June 30,	
	2012		2013		2014		2015	
	Number of tranches issued	Amount	Number of tranches issued	Amount	Number of tranches issued	Amount	Number of tranches issued	Amount
	(in millions of RMB, except tranches)							
Up to RMB10 million	162	1,175	147	1,105	188	1,340	95	670
Over RMB10 million to RMB50 million	225	6,371	250	7,084	291	8,655	282	8,460
Over RMB50 million to RMB100 million.	154	11,944	135	11,537	205	17,304	208	17,156
Over RMB100 million to RMB500 million	39	6,626	162	31,024	381	85,373	161	28,358
Over RMB500 million	—	—	12	11,500	22	22,465	10	8,584
Total	**580**	**26,115**	**706**	**62,249**	**1,087**	**135,137**	**756**	**63,228**

We invested the proceeds from our wealth management products mainly in money market instruments, bonds, non-standard credit assets and equity products. The following table sets forth, as of the dates indicated, the distribution of our wealth management products by use of funds.

	As of December 31,						As of June 30,	
	2012		2013		2014		2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Money market instruments	1,749	30.9%	2,018	19.8%	4,903	20.1%	6,659	21.7%
Bonds	2,646	46.8	4,711	46.2	14,170	58.0	16,402	53.3
Non-standard credit assets	1,264	22.3	3,470	34.0	5,347	21.9	4,968	16.2
Equity products	—	—	—	—	—	—	2,718	8.8
Total	**5,660**	**100.0%**	**10,200**	**100.0%**	**24,420**	**100.0%**	**30,747**	**100.0%**

We classify the wealth management products issued by us into five categories based on their risk levels according to the Measures for the Administration of the Sale of Wealth Management

Products of Commercial Banks (《商業銀行理財產品銷售管理辦法》) (CBRC Order [2011] No. 5) promulgated by CBRC in 2011. Our wealth management products issued to retail customers during the Track Record Period were classified as risk level 1 (principal-protected), risk level 2 (non-principal-protected, low probability of default on principal repayment, however the receipt of expected rate of return subject to uncertainty) and risk level 3 (non-principal-protected, relatively low probability of default on principal repayment, however the receipt of expected rate of return subject to uncertainty). Our wealth management products issued to corporate customers in 2012, 2013 and 2014, including principal-protected and non-principal-protected products, were all classified as risk level 2. Starting in 2015, our wealth management products issued to corporate customers are classified as risk level 1 (principal-protected, with fixed rate of return), risk level 2 (principal-protected, with variable rate of return) and risk level 3 (non-principal-protected, with variable rate of return). The following table sets forth the breakdowns by risk level of accumulative total amounts of the wealth management products issued by us during the periods indicated.

	For the year ended December 31,						For the six months ended June 30,	
	2012		2013		2014		2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Risk Level:								
Level 1	9,262	35.5%	3,565	5.7%	2,466	1.8%	2,401	3.8%
Level 2	16,853	64.5	58,684	94.3	132,671	98.2	49,893	78.9
Level 3	—	—	—	—	—	—	10,934	17.3
Total	**26,115**	**100.0%**	**62,249**	**100.0%**	**135,137**	**100.0%**	**63,228**	**100.0%**

We offer principal-protected and non-principal-protected wealth management products to our customers. As of June 30, 2015, the balance of our principal-protected and non-principal-protected wealth management products amounted to RMB3,825 million and RMB26,922 million, respectively.

During the Track Record Period and as of the Latest Practicable Date, all wealth management products issued by us had been under normal operation, the payment of principal and interest had been duly made without any default, and investors of our non-principal-protected wealth management products had not suffered any losses.

In accordance with the CBRC's requirements, we manage each of our wealth management products independently through separate accounts and book-keeping, with each of our wealth management products earmarked for its underlying investment. As of December 31, 2012, 2013 and 2014 and June 30, 2015, the tenors of the wealth management products we issued ranged from one month to one year, with a majority ranging from one month to three months. We address the mismatch between the maturities of our wealth management products and those of the underlying investments through a variety of measures, including the issuance of wealth management products on a rolling basis, financing from the markets and assets trading, to fund the redemption upon maturity of our wealth management products and ensure the liquidity of the assets and liabilities of our wealth management business.

Investment Business

Investments in Bonds

We primarily invest in the PRC government bonds and debt securities issued by PRC policy banks and other financial institutions as well as non-financial institutions. The PRC government bonds in our investment portfolio include bonds issued by MOF and bonds issued by local governments. As of December 31, 2012, 2013 and 2014 and June 30, 2015, our investments in bonds amounted to RMB22,840 million, RMB25,261 million, RMB33,548 million and RMB32,332 million, respectively.

Investments in Other Debt Instruments Issued by Financial Institutions

We also invest in non-standard credit assets, including trust fund plans, asset management plans, wealth management products issued by other PRC commercial banks, beneficiary rights in margin financing and beneficiary certificates issued by securities companies. Non-standard credit assets are credit assets not traded on the interbank markets or stock exchanges. As of December 31, 2012, 2013 and 2014 and June 30, 2015, the balance of our investments in non-standard credit assets with funds at our disposal amounted to RMB782 million, RMB20,293 million, RMB27,461 million and RMB37,619 million, respectively, representing 0.8%, 15.0%, 17.6% and 22.2%, respectively, of our total assets at the corresponding dates. For the year-on-year changes in our investments in these assets with funds at our disposal, see "Assets and Liabilities—Assets—Investment Securities and Other Financial Assets". For the risks relating to investments in non-standard credit assets, see "Risk Factors—Risks Relating to Our Business—We are subject to risks relating to our investments in non-standard credit assets."

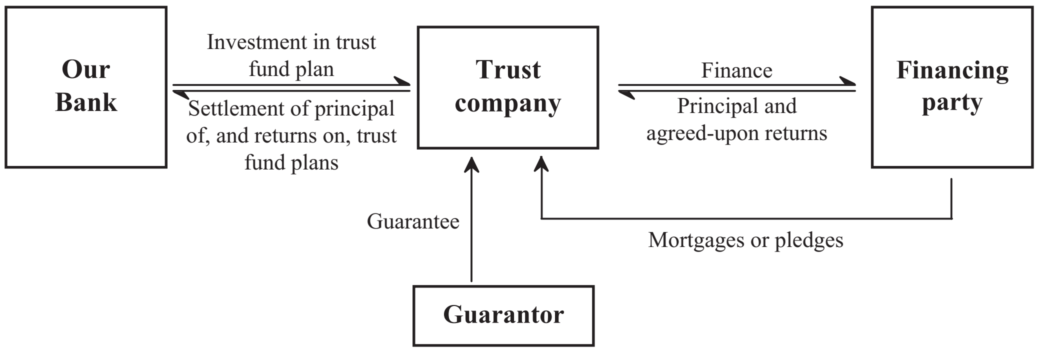
The following table sets forth, at the dates indicated, the breakdown of our investments in non-standard credit assets with funds at our disposal by type of collateral or guarantee securing the repayment of principal of and returns on the underlying assets.

	As of December 31,						As of June 30,	
	2012		2013		2014		2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Secured by collateral(1)	400	51.2%	1,749	8.6%	10,008	36.4%	10,327	27.5%
Secured by guarantees	—	—	1,850	9.1	5,203	18.9	7,275	19.3
Unsecured	382	48.8	16,694	82.3	12,250	44.6	20,017	53.2
Total	**782**	**100.0%**	**20,293**	**100.0%**	**27,461**	**100.0%**	**37,619**	**100.0%**

(1) Consists of non-standard credit assets secured by mortgages or pledges.

For our risk management with respect to our investments in non-standard credit assets, see "Risk Management—Credit Risk Management—Credit Risk Management for Our Financial Market Business—Risk Management for Our Investments in Non-standard Credit Assets".

Trust Fund Plans. Trust fund plans are trust plans sponsored by trust companies linked with beneficiary rights. By investing in trust fund plans, we invest in stand-alone or collective trust schemes operated by trust companies. The trust companies in turn provide funding raised through such stand-alone or collective trust schemes to companies with financing needs, whose obligations to the trust companies are secured by mortgages on, or pledges of, the assets financed by such funding or by irrevocable joint and several guarantees provided by guarantors to the trust companies. Upon the maturity of the trust fund plans, companies with financing needs shall repay the principal and pay the agreed-upon returns in accordance with the specified payment schedules. The following chart illustrates the relationship among the parties involved in our investments in trust fund plans.



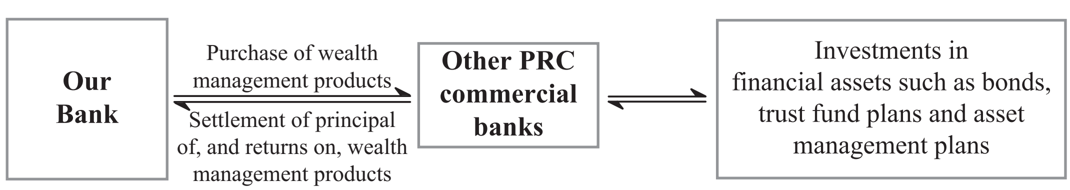
As of December 31, 2012, 2013 and 2014 and June 30, 2015, the balance of our investments in the trust fund plans amounted to RMB400 million, RMB1,500 million, RMB9,658 million and RMB9,190 million, respectively. Please see "Assets and Liabilities — Assets — Investment Securities and Other Financial Assets". As of June 30, 2015, the investments with funds at our disposal in trust fund plans were primarily used to finance the following types of financing parties: (i) approximately 33.1% of such funds were used to finance those in the real estate industry; (ii) approximately 25.0% to finance those in the water, environment and public utility management industry; (iii) approximately 16.4% to finance those in the leasing and commercial services sector; (iv) approximately 7.9% to finance those in the construction industry; (v) approximately 7.3% to finance those in the financial industry; (vi) approximately 4.4% to finance those in the public administration, social security and social organization sectors; (vii) approximately 3.2% to finance those in the culture, sports and recreation industry; and (viii) approximately 2.7% to finance those in the manufacturing industry. In 2012, 2013 and 2014, interest income from these investments was RMB10.1 million, RMB89.7 million and RMB336.5 million, respectively. For the six months ended June 30, 2015, interest income from these investments was RMB315.6 million.

Asset Management Plans. We enter into directional asset management contracts, specifying the investment scope of such asset management plans, with selected asset management companies or securities companies that are qualified to conduct asset management business, and well-recognized in relevant business segments. Pursuant to the terms and conditions of those contracts, we provide the asset management companies or securities companies with written investment instructions, which set out the terms of the products we plan to invest in, using our funds, such as the amount, tenor, interest rate and bank of the negotiated deposits. The asset management companies or securities companies then invest our funds in other banks' negotiated deposits, bank acceptance bills, entrusted creditors' rights or certain other underlying assets pursuant to our written instructions, through our designated accounts with third-party custodian banks, in accordance with the terms and conditions of those contracts. The banks taking negotiated deposits or accepting bank acceptance bills and the third-party custodian banks are all required to meet our risk assessment criteria for interbank business counterparties.

The asset management companies or the securities companies shall be responsible for our loss resulting from their management of our entrusted funds if they fail to execute our investment instructions or breach the terms and conditions of the directional asset management contracts. The custodian banks shall be responsible for any losses incurred by the asset management companies or securities companies or us as a result of their failure to perform custody services in accordance with the directional asset management contracts. The asset management companies or the securities companies do not provide any guarantee in relation to the asset management plans they sponsor. In the event of default of the banks issuing negotiated deposits or bank acceptance bills in which our asset management plans invest, we would request the asset management companies or the securities companies to take actions against the banks to mitigate our losses.

As of June 30, 2015, we entered into directional asset management contracts with six securities companies and seven asset management companies, and the balance of our investments in asset management plans was RMB19,857 million. As of June 30, 2015, the investments with funds at our disposal in asset management plans were primarily used to finance the following types of financing parties: (i) approximately 42.8% of such funds were used to finance those in the financial industry; (ii) approximately 15.4% to finance those in the water, environment and public utility management industry; (iii) approximately 14.4% to finance those in the leasing and commercial services sector; (iv) approximately 10.0% to finance those in the construction industry; (v) approximately 6.6% to finance those in the public administration, social security and social organization sectors; (vi) approximately 4.0% to finance those in the manufacturing industry; (vii) approximately 2.2% to finance those in the wholesale and retail industry; (viii) approximately 2.0% to finance those in the culture, sports and recreation industry; (ix) approximately 1.6% to finance those in the real estate industry; and (x) approximately 1.0% to finance those in the transportation, warehousing and postal industry. For the six months ended June 30, 2015, interest income from such investments amounted to RMB594.1 million. See "Assets and Liabilities—Assets—Investment Securities and Other Financial Assets".

Wealth Management Products Issued by Other PRC Commercial Banks. We from time to time make investments in certain wealth management products issued by other PRC commercial banks, which invest proceeds raised through these wealth management products into financial assets such as money market, negotiated deposits, and bonds. As of June 30, 2015, our holding of these wealth management products amounted to RMB1,019 million, all of which are principal-protected wealth management products issued by a PRC commercial bank. The following chart illustrates the relationship among parties involved in our investments in wealth management products issued by other PRC commercial banks.



Beneficiary Rights in Margin Financing and Beneficiary Certificates. We started investing in beneficiary rights in margin financing and beneficiary certificates in 2015. Beneficiary rights in margin financing refers to the income rights corresponding to the creditor's right arising from securities companies' margin financing loans to their customers. The securities companies are obligated to repurchase such income rights at a premium on a future date pursuant to the terms and conditions of the forward repurchase agreements. Beneficiary certificates refer to the principal-protected debt instruments issued by securities companies with agreed-upon returns. We grant credit lines to these securities companies based on a number of factors, including their financial strengths, regulatory rating and management capabilities. As of June 30, 2015, the balance of our beneficiary rights in margin financing and beneficiary certificates was RMB7,553 million and our credit risk for the investments in these two types of products lies with the counterparties under these transactions, which are all qualified securities companies that satisfy our credit review criteria.

The following table sets forth, as of June 30, 2015, the breakdown of our investments in non-standard credit assets products with funds at our disposal by remaining maturity.

	Trust fund plans	Asset management plans	Beneficiary rights in margin financing and beneficiary certificates issued by securities companies	Wealth management products issued by other PRC commercial banks	Total	% of total
			(in millions of RMB, except percentages)			
Due within 3 months	1,160	3,777	2,029	1,019	7,985	21.3%
Due over 3 months up to 6 months	416	1,557	1,500	—	3,473	9.2
Due over 6 months up to 1 year	1,444	3,208	2,024	—	6,676	17.7
Due over 1 year up to 3 years	3,300	5,435	2,000	—	10,735	28.6
Due over 3 year up to 5 years	2,580	5,400	—	—	7,980	21.2
Due in more than 5 years	290	480	—	—	770	2.0
Total	**9,190**	**19,857**	**7,553**	**1,019**	**37,619**	**100.0%**

As of June 30, 2015, approximately 48.2% of the non-standard credit assets products in our investment portfolio had remaining maturities of up to one year, indicating the relatively high liquidity of these assets. In addition, we have formulated a liquidity risk contingency plan. Under extreme circumstances where the disposal of non-standard credit assets does not provide sufficient liquidity support, we will assess the impact of such circumstances on our overall liquidity and incorporate our assessment into our liquidity risk alert system. We seek to adopt appropriate contingency measures based on the severity of liquidity risks. To meet short-term liquidity needs, we generally use our normal back-up funding sources and initiate relevant allocation procedures to bring the liquidity indicators back to the adequate level. With respect to the adverse changes in our asset and liability mix, our asset and liability management committee will review the potential impact to determine the appropriate measures, including the control or suspension of certain new asset businesses and disposal of certain liquid assets, which will enable us to alter our asset and liability mix to ensure the reliability and sufficiency of our funding sources.

Bond Underwriting Business

We conduct bond underwriting business on China's interbank bond market. We are a member of the underwriting syndicates for financial bonds issued by the China Development Bank, the Export and Import Bank of China and Agricultural Development Bank of China. Furthermore, in 2014, NAFMII granted us with a qualification to underwrite non-financial enterprise debt financing instruments. We were one of the first members of the underwriting syndicates for savings treasury bonds. We also underwrite financial bonds and tier-two capital bonds issued by other banks and financial institutions. We are also a member of the underwriting syndicates for CLOs. In 2012, 2013 and 2014 and for the six months ended June 30, 2015, the aggregate principal amount of bonds underwritten by us was RMB2,380 million, RMB4,770 million, RMB3,855 million and RMB5,610 million, respectively.

PRICING

Under the regulatory regime of the PRC banking industry, we have established a competitive product pricing mechanism based on risk-adjusted returns. We take various factors into consideration in determining or adjusting our prices, such as the benchmark interest rates and the permissible range set by PBoC, the cost of funding, management cost, risk and expected returns. In addition, we also take into consideration the overall market condition as well as prices on similar products and services offered by our competitors. Our pricing strategy and the interest rates on our loans and deposits are determined by the interest rate management committee at our head office, the members of which consist of the heads of our financial planning department and all of our primary business departments. The committee also coordinates and supervises all business lines on their pricing-related matters.

Loans

Prior to July 20, 2013, the interest rates we charged on RMB-denominated loans were generally based on the PBoC benchmark rates. At that time, interest rates on RMB-denominated corporate loans and personal loans should be no lower than 70% of the relevant PBoC benchmark rates. On July 20, 2013, PBoC removed restrictions on interest rates for loans offered by financial institutions except for residential mortgage loans, and abolished the floor rates for RMB-denominated loans. Pursuant to the current PBoC rules, we may set interest rates on loans other than residential mortgage loans through commercial negotiations. With respect to interest rates on residential mortgage loans to finance retail customers' purchases of their first residential properties, under a notice issued by the State Council, effective October 27, 2008, we may set interest rate at no lower than 70% of the PBoC benchmark interest rate of the same tenor. Effective April 17, 2010, we may set interest rates on residential mortgage loans to finance our customers' purchase of a second residential property at no lower than 110% of the PBoC benchmark interest rates. See "Supervision and Regulation—Pricing of Products and Services" for details.

When determining the price, we generally take into consideration factors such as the borrower's financial condition and credit rating, the nature and value of collateral provided, the maturity of the loan and prevailing market conditions. We also consider, among other things, the funding cost, our expected rates of return and the associated risks when pricing our products and services.

Deposits

Effective October 24, 2015, PBoC removed the cap on the interest rates on deposits and allowed banks to set interest rates on such deposits based on commercial considerations. In addition, commercial banks currently are permitted to negotiate and determine the interest rates on foreign currency-denominated deposits.

See "Supervision and Regulation—Pricing of Products and Services" for details.

Fee- and Commission-based Products and Services

We set prices on fee- and commission-based products and services pursuant to the prices set by the government, government guidance prices or market prices. Products and services subject to prices set by the government and government guidance prices include, among other things, basic RMB settlement business specified by CBRC and NDRC. We adjust prices on our fee- and commission-based products and services based on market conditions, costs of services and prices for similar products and services offered by our competitors.

See “Supervision and Regulation—Pricing of Products and Services”.

SERVICE

We believe our quality service is one of our core competitive strengths. We seek to continue to improve our customer service with a focus on providing refined and personalized services to customers. We have registered the Qing Xin (青馨) brand with the Trademark Office of the State Administration for Industry and Commerce, established a good brand image and won several awards. For example, our outlets were awarded “Top 1000 Outlets for Quality and Standardized Services in China’s Banking Industry” (中國銀行業文明規範服務千佳示範單位) by the China Banking Association in 2012 and 2014 and the “Award for Innovative Excellence of Top 100 Model Units for Quality and Standardized Services in China’s Banking Sector” (中國銀行業文明規範服務百佳示範單位創建優秀獎) by the China Banking Association in 2013.

We established a service supervision center in 2010 to centrally manage our customer service. In recent years, we have been upgrading our facilities at our branch and sub-branch premises to improve our customers’ experience. Furthermore, in processing business transactions and marketing and sales of our products, our customer managers seek to offer specialized and personalized services, representing industry best practices. For example, we monitor and evaluate the quality of services provided by our customer managers and other front office employees through on-site examinations and off-site surveillance on our branches and sub-branches. We conduct in-depth analysis on customer feedback records, customer service hotline (96588) and customer satisfaction surveys. We organize service evaluation meetings at the head office, branch and sub-branch levels on a quarterly basis to review and assess the quality of our customer services provided through business lines and outlets during the respective period or in connection with certain selected products. Recommendations made at these meetings are used to evaluate the operating quality and efficiency of our bank-wide customer service system to assist us to continue improve our service.

MARKETING

We have established a refined marketing organizational structure. The business departments at our head office collect market surveys and studies, overall business planning, set business targets and formulate marketing guidelines and plans. Our back office product research and development specialists are responsible for developing products and services to meet the needs of our target customers. Our branches and sub-branches formulate specific marketing goals in accordance with these guidelines and marketing activities. Through our front office customer managers, we provide quality services to our customers. We seek to deploy our marketing resources effectively among our various business lines and departments to optimize the allocation and utilization of our resources.

We seek to retain our existing customers by increasing our product coverage and increasing the share of their financial assets with us. In addition, we seek to expand our customer base through corporate and retail cross-selling and bulk marketing.

We have been focusing on building up our back office information technology infrastructure to achieve targeted marketing through our CRM system and data warehouse. This enables us to conduct effective analysis on our customers' preferences and demands to develop customized products and services and implement differentiated marketing, improve our marketing efficiency and reduce our marketing costs.

DISTRIBUTION NETWORK

We provide banking products and services through various distribution channels, including our branches and sub-branches as well as electronic banking channels. As of June 30, 2015, our physical distribution network consisted of 86 outlets, including our head office, branches and sub-branches, 74 self-service banks and 387 self-service facilities. We have also established online banking, telephone banking, mobile banking and e-commerce platforms. Our outlets and electronic banking channels enable us to deliver quality services to our customers in an effective way.

Outlets

While maintaining our key focus on Qingdao, we have rapidly grown our outlets in other regions in Shandong Province. As of June 30, 2015, we had 86 outlets in nine cities in Shandong Province, namely Qingdao, Ji'nan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai and Binzhou, including our head office and 61 sub-branches in Qingdao. The following map indicates the distribution of our outlets in Shandong Province as of June 30, 2015.

The following table sets forth the number and distribution of our outlets by geographic location as of the dates indicated below.

	As of December 31,						As of June 30,	
	2012		2013		2014		2015	
	Number of outlets	% of total	Number of outlets	% of total	Number of outlets	% of total	Number of outlets	% of total
Qingdao	46	90.2%	51	85.0%	60	78.9%	62	72.1%
Other municipalities in Shandong Province	5	9.8	9	15.0	16	21.1	24	27.9
Total	**51**	**100.0%**	**60**	**100.0%**	**76**	**100.0%**	**86**	**100.0%**

We believe that our outlet network is an important channel to develop our brand and provide quality services to our customers.

- From a site selection perspective, we have established a strategic network in Qingdao by opening outlets at premium locations with high customer flows and convenient transportation, such as along major streets, and in commercial and residential communities, to provide convenient services to our customers. In other regions in Shandong Province, we aim to maintain a balanced network, with a focus on economically developed regions as well as county areas with increasing demands.
- For outlet refurbishment, we adopt standardized styles for new outlets and have continued to upgrade and renovate existing outlets in order to provide our customers with comfortable and pleasant settings.

We plan to continue expanding our outlet network to all major cities in Shandong Province to further grow our distribution network.

Electronic Banking

Our electronic channels provide comprehensive financial services through online banking, self-service banking, telephone banking and mobile banking in order to enhance customers experience. We place strong emphasis on building up electronic channels to improve our capabilities to provide diversified services. Since 2012, we have developed a multi-channel integrated platform (MCI), enabling us to provide personalized and customized services to customers through data analysis. For the six months ended June 30, 2015, the transaction processed through our electronic banking accounted for 88.6% of the total number of customer transactions for the same period.

Online Banking

We provide online banking services to our corporate and retail customers though our website (www.qdccb.com), which allows our customers to access their accounts and conduct transactions around-the-clock. Our corporate online banking products and services mainly include account management, collection and payment management, loan inquiry, international settlement, electronic bills and payroll services. In addition, we provide bank-enterprise direct link services to our large corporate customers to meet their needs for centralized liquidity management. Our retail online banking products and services include account inquiry and management, fund transfer and remittance, self-service payment, investment and wealth management, public services card and personal loan inquiry and repayment. We also seek to provide our customers with personalized webpages to improve customer experience. Our website also offers various functions, such as voice input, for the convenience of customers with special needs. Our online banking business was awarded the "Best Innovation Award for Online Banking Business among Regional Commercial Banks" (區域性商業銀行最佳網上銀行業務創新獎) in 2012 by China Financial Certification Authority (CFCA) (中國金融認證中心), the "Best Retail Online Banking Customer Experience Award for Leading Electronic Banks in China" (領航中國電子銀行個人網銀用戶體驗獎) in 2013 by JRJ.COM (金融界) and Tsinghua University (清華大學), and the "Best Product Innovation Award for Corporate Online Banking" (企業網銀最佳產品創新獎) by the fifth session of China Internet Banking Union (第五屆網銀聯盟大會) in 2014. As of June 30, 2015, we had approximately 560,000 online banking customers, including approximately 46,000 registered corporate customers and approximately 516,000 registered retail customers.

Self-service Banking

Our self-service banking facilities include ATMs, self-service deposit and withdrawal machines and self-service terminals. Our self-service banking facilities are placed at the premises of our outlets, providing customers with balance inquiry, cash deposit and withdrawal, fund transfer, payment of utilities bills and certain other services. As of June 30, 2015, we had a total of 74 self-service banks and 387 self-service facilities, including 111 ATMs, 179 deposit and withdrawal machines and 97 self-service terminals.

Telephone Banking

We offer telephone banking services through our national customer service hotline "400-66-96588" (direct line for Qingdao 96588) to both corporate and retail customers. Customers may access an automated voice system or speak live to our customer service representatives. Our services include information inquiry, account inquiry and management, emergency card lost reporting, money transfer, bill payment, investment and wealth management advisory as well as handling of customer complaints. We aim to upgrade our telephone banking services to a customer interaction center and provide value-added services through our intelligent customer hotline to improve customer experience and enhance our customers' adherence.

Mobile Banking

We offer mobile banking services to our retail customers, which mainly include basic services such as account management, money transfer and remittance, and investment and wealth management, as well as services related to daily life such as bill payment and ticket booking. In addition, we also provide SMS service to contracted customers, primarily including notification of account changes, risk alerts and notices of wealth management products. Applications including *Haihui Shenghuo* (海慧生活) and *Qingxin Shenghuo* (青芯生活) can be downloaded on mobile phones, providing convenient services to our retail customers. Our mobile banking platform also supports Near Field Communication (NFC) based contactless customer identification and payment. As of June 30, 2015, we had 326,354 contracted mobile banking customers. In 2015, we were awarded the "Best Mobile Banking Security among Regional Commercial Banks" (區域性商業銀行最佳手機銀行安全獎) at the Electronic Banking Annual Conference organized by China Financial Certification Authority, and the "2014 Most Outstanding Mobile Banking Award" (2014年度手機銀行卓越獎) at the 12th China's Financial Annual Champaign held by hexun.com.

WeChat Banking

We introduced WeChat applications to our retail customers in 2014. Our WeChat banking offers multi-functional and user-friendly mobile phone applications, providing our customers with account inquiry, wealth management information, locate nearby merchants and other services.

INFORMATION TECHNOLOGY

We believe the effective use of information technology is critical not only to the efficient operation of our business but also our success in building our "Interface Bank". The important operational and management areas that rely upon information technology include transaction processing, customer services, product management, risk management and financial management. The application of advanced information technology systems has greatly improved, and will continue to improve, the efficiency of our services and management, our customer experience and our risk and financial management capabilities. We will maintain our investment in upgrading and maintenance of our information technology system. We have been focusing on the establishment of four major categories of systems relating to our outlet network, online banking services, products and management support. In 2012, 2013 and 2014, our total expenditure in the procurement and maintenance of information technology equipment, systems and related software and hardware was approximately RMB100 million, RMB160 million and RMB167 million, respectively.

Information Technology Management and Professional Team

We have established an Information Technology Committee under our Board and an information technology management committee under our senior management. The Information Technology Committee under our Board consists of five Directors, chaired by an independent director with extensive experience in information technology infrastructure construction and management in the banking industry. The Information Technology Committee under our Board is mainly responsible for the research and evaluation of our information technology development strategy, providing guidance and supervision on our information technology infrastructure and governance. This committee reviews relevant reports on information technology, and provides recommendations to our Board. The information technology management committee under our senior management consists of our President, other senior management personnel, the heads of our primary business departments and the information technology department, responsible for the centralized coordination, management and supervision of information technology.

Our information technology department is responsible for formulating information technology strategy in accordance with our business development, building up and improving our information technology infrastructure and application systems and providing technology support for the secure and stable operation of our bank-wide information system. Our information technology department performs the function of research and development, maintenance, testing, project management, technical support and business management with respect to our information technology systems.

We continue to expand and strengthen the training programs for our information technology team. We also focus on the recruitment of talents. We have built up a comprehensive professional development program covering recruitment, training, performance evaluation and appraisal, in order to support and facilitate information technology development. In recent years, our information technology team has expanded rapidly. As of June 30, 2015, our information technology team consisted of 107 information technology experts and professional staff, accounting for 4.1% of the total number of our staff. Of our information technology professionals, 94.1% possess bachelor's degree or higher, including 44 with master degree, accounting for 41.5% of our information technology team.

Information Technology System

We have established an information technology application system to meet our business needs. We have utilized virtualization and cloud computing technology to improve and consolidate our information technology infrastructure and upgraded our application system based on the service-oriented architecture (SOA), in order to improve our system and program adaptability, lower the costs of development and maintenance of our information technology systems and enhance the utilization efficiency of our information technology resources. Our information technology system provides strong technical support to our banking business, operation and management, customer relationship and the expansion of our customer base.

Our information technology system is a critical component of our operation, particularly in customer service, expansion of our distribution channels and management support. For customer service, we have built an SOA structure to fully optimize and upgrade our bank-wide information technology system in order to streamline business operation procedures and improve customer experience. For channel expansion, we focus on the development of electronic channels, and have upgraded our existing distribution channels including online banking, mobile banking, telephone banking and the e-commerce platform. We also explore new distribution channels, such as direct sales banking. In addition, we have increased our efforts on technology innovations to support our business growth. We have set up a dedicated platform based on the analysis of transaction data and a data mart for marketing. The integration of our marketing platform with our existing business platforms enables us to achieve targeted marketing and bulk marketing on a real-time basis.

We generally retain ownership of the relevant intellectual property rights on outsourced systems and the systems developed by us.

For details regarding our information technology risk management, see "Risk Management—Operational Risk Management—Information Technology Risk Management".

COMPETITION

Under the current macroeconomic environment and regulatory regime, the banking industry in China is becoming increasingly competitive. Due to the introduction and changes of relevant policies in the PRC in recent years, competition in certain lines of banking business has been further intensified. See "Industry Overview—Industry Trends". We compete primarily with commercial banks operating business in Shandong Province. We compete with our competitors mainly on product service offerings and prices, service quality, brand recognition, distribution network and information technology capabilities. For information on the total assets and total liabilities of banking institutions in Shandong Province, see "Industry Overview—Competitive Landscape of the Banking Industry in Shandong and Qingdao".

With the rapid development of the banking industry and capital markets in the PRC, we also face increasing competition from other financial institutions.

We believe that competition in the PRC banking industry will continue to intensify. The principal competitive factors in the banking industry include capital, risk management capability, talents, the coverage of distribution networks, customer base, brand recognition, quality and pricing on products and services. In response to the increasingly competitive environment, we intend to improve our capabilities in these areas and adopt such measures as expanding our distribution network, enhancing our traditional businesses, developing new products and services and exploring new business lines. We believe that these measures will help us strengthen our competitiveness to differentiate ourselves from our competitors in Shandong Province and other areas where we intend to launch our business operations in the future. We may, in the future, seek opportunities to expand our business through strategic investments, subject to applicable PRC laws and regulations. We currently have not identified any acquisition targets.

EMPLOYEES

As of December 31, 2012, 2013 and 2014 and June 30, 2015, we had 1,840, 2,140, 2,558 and 2,590 full-time employees. All of our employees are based in Shangdong Province. The following table sets forth the number of our full-time employees by function/department as of June 30, 2015.

	As of June 30, 2015	
	Number of employees	approximate % of total
Corporate banking	472	18.2%
Retail banking	466	18.0
Financial market business	25	1.0
Finance and accounting	203	7.8
Risk management	75	3.0
Internal audit	23	0.9
Legal and compliance	17	0.7
Information technology	107	4.1
Management	224	8.6
Teller	713	27.5
Others	265	10.2
Total	**2,590**	**100.0%**

The following table sets forth the number of our full-time employees by age as of the date indicated.

	As of June 30, 2015	
	Number of employees	approximate % of total
Aged 20 – 35	1,663	64.2%
Aged 36 – 45	670	25.9
Aged over 45	257	9.9
Total	**2,590**	**100.0%**

The following table sets forth the total number of our full-time employees by education as of the date indicated.

	As of June 30, 2015	
	Number of employees	approximate % of total
Postgraduate	435	16.8%
University-level	1,523	58.8
Others	632	24.4
Total	**2,590**	**100.0%**

During the Track Record Period, we recruited 960 employees with university-level or above education background, including 754 with a bachelor's degree, 202 with a master's degree and four with a Ph.D degree. In May 2014, we obtained government approval to become one of the first institutes in Shandong Province for postdoctoral practice. As of the Latest Practicable Date, we had three post-doctorate personnel. In June 2015, we submitted an application for establishing a postdoctoral research institute. During the Track Record Period, 26 of our employees obtained the Certified Financial Planner (CFP) qualification and 100 of our employees obtained the Chinese Registered Financial Analyst (CRFA) qualification.

We believe our sustainable growth depends on the outstanding capability and dedication of our employees. We have invested substantial resources in recruitment and training of our employees. We provide on-the-job training to our employees on service etiquette, corporate and retail banking businesses, new products, new systems and inter-personal skills. During the Track Record Period, we organized 694 training sessions to our employees, with 56,401 attendance records in aggregate totaling 223,196 training hours. In order to provide a solid talent pool to support our sustainable development, we formulated a plan in 2012 to implement a "532 talent training program" with an aim to train and promote 500 professionals, 300 manager-level professionals in various banking business lines and 200 mid-level and senior management personnel in around three years. In 2014, we organized 137 seminars to train our management personnel of all levels, with approximately 15,000 attendance records. In addition, ISP provides overseas training programs to us according to our cooperation agreement with them. Three groups of mid-level to senior management teams of 60 personnel in total have participated in the training programs at the National University of Singapore. We have also organized joint training programs with Taiwan Academy of Banking and Finance since 2013. Two groups of mid-level to senior management teams of 40 personnel in total have attended the training programs in Taiwan.

We have established a comprehensive performance evaluation and incentive system and offer competitive compensation packages to our employees. We provide benefits to our employees in accordance with the PRC laws and regulations on pension insurance, health insurance, unemployment insurance, work-related injury insurance, maternity insurance and housing fund.

During the Track Record Period and as of the Latest Practicable Date, we did not experience any strikes or other material labor disturbances affecting our operations. Our management, the labor union and employees have maintained good relationship.

In addition to full-time employees, as of June 30, 2015, we also had 474 contract workers retained through third-party human resources agencies. These contract workers are not our employees and generally do not hold key positions with us. We do not enter into labor contracts with these contract workers. Instead, they enter into labor contracts with the third-party human resources agencies. We are not legally obligated to make social security contributions for these contract workers. Instead, pursuant to the employment agreements between the third-party human resources agencies and us, we make salary payments, social security contributions and other related payments for the contract workers to these agencies. These agencies then handle salary payments to the contract workers and make social security contributions to the relevant governmental agencies for the contract workers.

PROPERTIES

We are headquartered in Qingdao, Shandong Province. As of the Latest Practicable Date, we owned or occupied 46 properties with an aggregate GFA of approximately 51,625 square meters in the PRC. As of the Latest Practicable Date, we entered into purchase agreements with third parties to acquire seven properties and also expect to acquire one additional property through compensation for demolition and relocation. As of the Latest Practicable Date, we leased 91 properties with an aggregate GFA of approximately 78,002 square meters in the PRC.

Owned Properties

As of the Latest Practicable Date, we owned or occupied 46 properties with an aggregate GFA of approximately 51,625 square meters, of which:

1. for 44 properties with a GFA of approximately 49,458 square meters, accounting for 95.8% of the aggregate GFA of our owned properties, we have obtained building ownership certificates and land use right certificates. For 40 of these 44 properties, we have obtained land use rights for the area of land occupied by the buildings by means of grant according to laws. For the remaining four of these 44 properties with a GFA of approximately 1,243 square meters, accounting for 2.4% of the aggregate GFA of our owned properties, we have obtained land use rights for the area of land occupied by the buildings by means of allocation according to laws. As advised by King & Wood Mallesons, our PRC legal advisor, as we have obtained the relevant land use right certificates for the four properties with the land use rights obtained by means of allocation, there are no material legal impediments for us to occupy and use those properties before we complete the procedures for converting the land from allocated land to granted land. However, we are still required to obtain approvals from the competent authorities and pay land premium or land proceeds as well as other fees and charges when we transfer, lease, create a mortgage over or otherwise dispose of such properties.
2. for one property with an aggregate GFA of approximately 1,030 square meters, representing 2.0% of the aggregate GFA of our owned properties, we have obtained a building ownership certificate, but have not obtained a land use right certificate for the area of land occupied by the building primarily due to the loss of relevant original documents of land use right. As advised by King & Wood Mallesons, our PRC legal advisor, as we have obtained the relevant building ownership certificate, there are no material legal impediments for us to occupy and use the property. However, we may not freely transfer, create a mortgage over or otherwise dispose of the property before we obtain the relevant land use right certificate.
3. for one property with an aggregate GFA of approximately 1,136 square meters, representing 2.2% of the aggregate GFA of our owned properties, we have not obtained a building ownership certificate and land use right certificate, primarily due to the loss of original documents. As advised by King & Wood Mallesons, our PRC legal advisor, we may not legally transfer, create a mortgage over or otherwise dispose of such property before we obtain the relevant building ownership certificate and land use right certificate for the property.

For the abovementioned properties with title defects, we are actively negotiating with the competent authorities and applying for the relevant building ownership certificate and land use right certificates. As of the Latest Practicable Date, the above-mentioned title defects did not have any material adverse effect on our business operations. Our Directors are of the view that none of the properties with title defects, whether individually or collectively, are crucial to our operation.

In the event that any third parties bring claims or legal proceedings against us for building ownership rights of such buildings or land use rights of the land on which such buildings were located, we may be required to immediately vacate the premises and relocate to alternative premises. Our Directors believe that such relocation will not have any material effect on our operations and financial condition.

Leased Properties

As of the Latest Practicable Date, we leased 91 properties with an aggregate GFA of approximately 78,002 square meters, which we mainly use as business premises.

For 18 of these 91 properties with an aggregate GFA of approximately 10,216 square meters, the lessors have not provided us with the relevant building ownership certificates or other ownership certificates or a consent letter from the owners to authorize the lessors to lease or sublease the respective properties, but for 17 of the aforementioned properties with a GFA of approximately 9,956 square meters, the lessors have provided their written confirmation letters acknowledging their right to lease out the properties and undertaking to indemnify us for losses arising from any title defects of such leased buildings and units.

Of the 91 leased properties, we have completed the filing and registration formalities for the lease agreements with the relevant PRC authorities for 53 properties with an aggregate GFA of approximately 41,548 square meters. For the remaining 38 properties with respect to which we have not completed the filing and registration formalities for the relevant lease agreements, the lessors of 33 properties with a GFA of approximately 30,354 square meters have provided us with confirmation letters, undertaking that they will indemnify us in the event that we incur losses due to defects for such unregistrered lease properties.

In addition, the lease agreements of three leased properties with a GFA of approximately 6,095 square meters have expired, which we are in the process of renewing.

Our PRC legal advisor, King & Wood Mallesons, is of the view that a lessor does not have the right to lease the property if it does not have the ownership of such property and/or the authorization or consent from the owner. In this case, if any third party raises an objection to the validity of the lease, it may affect our ability to continue leasing such properties. However, we may still raise claims against the lessor based on the leasing agreements or the written confirmation provided by the lessor. In addition, we can be deemed as the legitimate tenant based on relevant judicial interpretations when the lessor enters into two or more lease agreements with respect to the same property. According to the relevant judicial interpretations, failure to register the lease agreements will not affect the validity of such lease agreements but we may be subject to penalties imposed by the relevant PRC authorities. Pursuant to the Administrative Measures on Leasing of Commercial Housing (《商品房屋租賃管理辦法》), for the unregistered leased properties, the competent authorities have authority to demand filing and registration on the lease agreements within the specified time periods. Failure in filing and registration within such time period may be subject to a fine between RMB1,000 and RMB10,000 per property imposed by the competent authorities. As of the Latest Practicable Date, we were not subject to any penalties imposed by the relevant housing administrative authorities for non-registration of lease agreements. Our Directors believe that if the title defects to any such properties or the non-registration of the lease agreements prevents us from continuing to lease any such properties and, therefore, our relevant outlets need to be relocated, we can relocate our outlets to comparable alternative premises in the relevant locations without any material adverse effect on our business and financial condition. In addition, our Directors also believe that if the owner obtains the relevant building ownership certificates, there will not be any material change in the rental costs of the abovementioned 18 leased properties with potential title defects.

Properties to be Acquired from Third Parties or Through Compensation for Demolition

As of the Latest Practicable Date, we had entered into seven purchase agreements with third parties to acquire seven properties with an aggregate GFA of approximately 60,669 square meters, at an aggregate price of RMB 1,623.91 million, which is paid out of our own funds. All of these properties are used as our office and business premises. Of these seven properties, we have taken possession of five properties with an aggregate GFA of approximately 7,169 square meters, which are being refurbished or put in use, and we are in the process of obtaining property registration; one property with an aggregate GFA of approximately 52,244 square meters is under construction, which is expected to be completed by June 30, 2016; one property with an aggregate GFA of approximately 1,256 square meters is under construction, of which the completion time is yet to be determined due to its location in the metro construction area. In addition, we expect to obtain an additional property with an aggregate GFA of approximately 744 square meters being the compensation for one of our owned properties which has been demolished pursuant to an approval by the local government. We are not required to pay additional consideration for the new property. We plan to use this property as our office and business premise.

Property Valuation

As of June 30, 2015, the maximum book value of our property interests was approximately RMB129 million, representing less than 1% of our total assets. As a result, we are exempted from compliance with the requirement of including a property valuation report under the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance. Pursuant to Rule 5.01A of the Listing Rules, if the book value of the property business and non-property business of a listing applicant are below 1% and 15% of its total assets, respectively, the prospectus will be exempted from compliance with such requirement. In respect of the requirement under section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance and paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, similar waivers are also available under section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

INTELLECTUAL PROPERTY RIGHTS

We operate under the name "Bank of Qingdao" (青島銀行). As of June 30, 2015, we owned 156 registered trademarks in the PRC. We are also the registered owner of the domain name www.qdccb.com.

See Appendix VII—"Statutory and General Information—2. Further Information about Our Business—B. Intellectual Property Rights" of this prospectus.

LEGAL AND REGULATORY

Licensing Requirements

As of the Latest Practicable Date, we had obtained necessary qualifications for operation of our current businesses.

Legal Proceedings

We are involved in legal disputes in the ordinary course of our business, which mainly include legal proceedings brought against borrowers for the recovery of loans. As of June 30, 2015, we were not involved in any material pending lawsuits as defendant.

As of the Latest Practicable Date, none of our Directors, Supervisors or senior management was involved in any material lawsuits, arbitrations or administrative proceedings.

Regulatory Inspections and Proceedings

Administrative Penalties

We are subject to inspections and examinations by various PRC regulatory authorities, including CBRC, PBoC, SAFE and SAT and their respective local offices. Administrative penalties may be imposed as a result of the outcome of such inspections and examinations.

During the Track Record Period and as of the Latest Practicable Date, we were not subject to any material fines or penalties due to violation of regulatory requirements.

Findings of Regulatory Examinations

Regulatory authorities including CBRC and PBoC conduct routine or *ad hoc* inspections on our compliance with the relevant PRC laws and regulations, guidelines and regulatory requirements. During the Track Record Period and as of the Latest Practicable Date, inspections of our head office, branches and sub-branches conducted by regulatory authorities such as CBRC and PBoC involved risk management, internal control, corporate governance, anti-money laundering and operations of various business lines. Although the abovementioned inspections have not identified any substantial risk or incidents of material non-compliance, findings of the inspections revealed certain deficiencies in our business operations, risk management, internal control and other areas, primarily reflecting the challenges from the evolving regulatory framework and the heightened regulatory requirements, as well as our launching of new products and new business. We have promptly adopted rectification measures in accordance with the findings and recommendations from the relevant regulatory authorities and improved our risk management and internal control systems. Major findings of inspections and examinations are summarized as follows.

CBRC

CBRC Qingdao Office and other local offices of CBRC conducts regular and *ad hoc* inspections on our operations conditions, including on-site inspection of our head office, branches and sub-branches. Based on such inspections, the relevant local offices of CBRC issue inspection opinions, specifying the findings and suggestions. Major issues and guidance opinions raised by the relevant local offices of CBRC in their reports and major rectification measures taken by us during the Track Record Period and as of the Latest Practicable Date are set out as follows.

Time of inspection report	Major issues and guidance opinions	Reasons	Our principal rectification measures	Time of completion of rectification
June 2014	**Liquidity risk management**			
	● There are certain deficiencies in our liquidity risk management and room for standardization.	● Our evaluation on liquidity risk might be insufficient due to the mismatches between entrusted funds and underlying investment in our non-principal-protected wealth management business.	● We revised the existing policies and procedures to further standardize the liquidity risk management of new products and businesses. We have also improved our liquidity risk alert indicators, financing strategies and contingency plans, and established a policy to manage our high-quality liquid assets.	● We have completed the rectification and submitted the rectification report in July 2014.
	● Liquidity risk management systems commensurate with the scale, nature and complexity of the Bank's business shall be established.	● The former liquidity management model and measures could not keep up with our rapid business development driven by the continuous launching of new business and the promulgation of new liquidity risk management measures.	● We improved our information system infrastructure and refined our liquidity testing and analysis framework. We also improved our stress testing procedures by enriching stress testing scenarios.	● We have completed the rectification and submitted the rectification report in July 2014.

Time of inspection report	Major issues and guidance opinions	Reasons	Our principal rectification measures	Time of completion of rectification
July 2014	**Bank bill acceptance, discounting and rediscounting businesses**			
	• In a certain bill discounting transaction, the value of the underlying contract was inconsistent with financial figures of the client. There were also operational irregularities that relevant credit risks were not transferred upon the disposal of such discounted bills.	• There were operational irregularities in certain bank bill acceptance and discounting transactions, which resulted in indirect grant of loans through discounting of our bank acceptance bills.	• Relevant transactions with the customer in question were fully settled and discontinued. Further, we have strengthened our management of related operations through implementing accountability policies, revising existing management policies and procedures and enhancing training.	• We have completed the rectification and submitted the rectification report in August 2014.
January 2013	**Corporate loan business**			
	• Our credit risk management system failed to identify certain instances where an individual acted as the legal representative for various companies and such companies provided guarantees to each other.	• We did not develop relevant functions of the group client management module of our credit risk management system in time to fulfill our business requirements.	• The group client management module of our credit risk management system was modified. The module passed functionality testing and commenced operation.	• We have completed the rectification and submitted the rectification report in March 2013.

Time of inspection report	Major issues and guidance opinions	Reasons	Our principal rectification measures	Time of completion of rectification
October 2013	**Investment operations under wealth management business**			
	● Information relating to certain wealth management products was not disclosed to investors in a timely manner in strict compliance with the regulatory requirement.	● At the time of promulgation of regulations on information disclosure with regards to wealth management products, our information disclosure standard with regards to wealth management products and its implementation rules could not strictly comply with regulatory requirements.	● We enhanced our information disclosure with regards to wealth management products in accordance with the relevant CBRC requirements and with reference to good industry practices.	● We have completed the rectification and submitted the rectification report in October 2013.
February 2012	**Information technology and electronic channels**			
	● We were requested to fully examine and refine our POS acceptance business in response to operational irregularities of certain POS merchants.	● Our previous UnionPay risk monitoring platform could not conduct supervision and analysis with bank account transactions. We did not set up POS management system and failed to effectively identify merchants who conducted POS arbitrage.	● We examined our POS acceptance business, visited merchants onsite, analyzed and monitored transactions of merchants, and appointed designated personnel for POS risk management.	● We have completed the rectification and submitted the rectification report in March 2012.
	● We were requested to strengthen management of our online banking system and to timely enhance the checks and balances for authorization over the online banking system.	● We had limited mechanisms for checks and balances on administrators authority of the online banking system, and the front and back offices were not fully segregated.	● We clarified and reset operation authority for administrators of the online banking system, introduced an operation audit position and put in place mechanisms for checks and balances on administrator authorities.	● We have completed the rectification and submitted the rectification report in March 2012.

Time of inspection report	Major issues and guidance opinions	Reasons	Our principal rectification measures	Time of completion of rectification
	● We were requested to enhance our information technology risk management structure to strengthen our daily operation management.	● Our information technology development plan had not yet been approved by the Board at that time. Papers related to our information technology risk management were only issued by our technology department. Thus there was no guarantee that such paper would be implemented throughout the entire bank and relevant risks would be controlled effectively.	● We incorporated information technology risk into the bank-wide risk management system.	● We have completed the rectification and submitted the rectification report in March 2012.
September 2013	**Interbank business**			
	● There were deficiencies in inter-departmental control over our interbank transactions and the front, middle and back offices were not fully segregated.	● Our financial market department was simultaneously responsible for the front office transactions of the interbank business, and system's operation and maintenance as well as the verification and adjustment of transactions.	● We gradually established mechanisms under which the middle and back offices provide feedback to and monitor the front office of our interbank business and thereby segregated the front, middle and back offices.	● We have completed the rectification and submitted the rectification report in October 2013.

Time of inspection report	Major issues and guidance opinions	Reasons	Our principal rectification measures	Time of completion of rectification
	● There were errors and omissions in the credit analysis of enterprises and insufficiencies in credit risks estimates of enterprises.	● Estimation on credit risks of certain enterprises was insufficient as other utilized credit limits of such enterprises were not taken into account when analyzing credit limit for the grant of a loan.	● We strengthened the management of credit analysis for enterprises conducted by operating branches of our structured financing business and enhanced the quality of reports submitted for approval by such branches. We also standardized credit analysis for our structured financing business.	● We have completed the rectification and submitted the rectification report in October 2013.
	● Internal transactions existed under the bank-trust cooperation business model.	● During the operation of our bank-trust cooperation business, the trust beneficiary rights obtained from our own business and the wealth management business were not isolated for transaction purpose.	● We regulated the development of our wealth management business strictly in accordance with regulatory requirements.	● We have completed the rectification and submitted the rectification report in October 2013.
	● Asset management contracts were exposed to legal risks due to various errors and omissions as to execution.	● Mismatches between risk level and return as well as uncertainty on return were found in the asset management products acquired during the inspection period.	● We reviewed all relevant business contracts to correct and rectify any errors and omissions.	● We have completed the rectification and submitted the rectification report in October 2013.

As of the Latest Practicable Date, we have not received any objections raised by regulatory authorities regarding our rectification report or rectification measures, or any further requests for additional rectification measures.

In addition to the aforementioned cases, CBRC Qingdao Office has also conducted annual on-site and off-site inspections on our operating conditions, and issued its annual regulatory opinion based on its findings. The opinion mainly listed out the major achievements of our operations, problems that required special attention and major regulatory recommendations. According to its annual regulatory opinions from 2012 to 2014, CBRC Qingdao Office recognized our effective operation and management and confirmed that we have generally satisfied the regulatory requirement of major regulatory indicators. It also provided relevant regulatory opinions on the major problems that required special attention, and we have implemented improvement or upgrade measures accordingly. Details of the above annual regulatory opinions and our rectification measures are as follows:

Time of inspection report	Major issues and guidance opinions	Reasons	Our principal rectification measures	Time of completion of rectification
April 2015	**Credit risk management**			
	● Strengthen quality control of credit assets.	● Our non-performing loan ratio increased, overdue and special mention loans grew and asset quality deteriorated.	● We strengthened early warning and reporting of material events, improved asset categorization, and strengthened monitoring and post-disbursement management of special mention loans. We also enhanced control on credit approval processes for clients outside Qingdao.	● We have implemented corresponding rectification measures and submitted the rectification report in May 2015.
	● Control credit granted to government financing vehicles.	● A relatively low proportion of on- and off-balance sheet loans to government financing vehicles were recognized as government debts with the remaining portion partially missing clear source of repayment.	● We closely monitored the settlement of accumulated debts owed by local governments according to the requirement of MOF. We have also reduced the scale of total loans through scheduled exiting, in full or in part, from customers with high risks.	● We have implemented corresponding rectification measures and submitted the rectification report in May 2015.

Time of inspection report	Major issues and guidance opinions	Reasons	Our principal rectification measures	Time of completion of rectification
	● Control investments in non-standard credit assets.	● We were exposed to certain compliance risk as certain assets were sold in package instead of being continuously managed according to contracts.	● We strictly limited investments in non-standard credit assets related to real estate, financing platforms and other restricted areas. Further, we controlled relevant risks through strengthening pre-investment investigations, and implementing classification and provision policies and procedures comparable to those applicable to loans.	● We have implemented corresponding rectification measures and submitted the rectification report in May 2015.
April 2015	**Liquidity risk management**			
	● Enhance the development of liquidity risk management policies and procedures.	● Liquidity gap increased as a result of maturity mismatch. Reliance on wholesale financing further increased due to sluggish growth and fluctuations in deposits.	● We established liquidity risk management policies and procedures to carry out scientific and reasonable cash flow forecasts and analysis. We also optimized the liquidity risk alert system by developing and updating our working procedures to enhance financing management.	● We have implemented corresponding rectification measures and submitted the rectification report in May 2015.

Time of inspection report	Major issues and guidance opinions	Reasons	Our principal rectification measures	Time of completion of rectification
	● Refine the execution of liquidity risk management.	● Liquidity gap increased as a result of maturity mismatch. Reliance on wholesale financing further increased due to sluggish growth and fluctuations in deposits.	● We enriched the scenarios for stress testing with reference to industry practices.	● We have implemented corresponding rectification measures and submitted the rectification report in May 2015.
April 2015	**Market risk management**			
	● Enhance market risk management in response to interest rate drops by the central bank and interest rate liberalization.	● Not applicable.	● We optimized the maturity structure of assets and liabilities to lower interest rate risk sensitivity.	● We have implemented corresponding rectification measures and submitted the rectification report in May 2015.
April 2015	**Information technology risk management**			
	● Clarify the direction and objective of information technology development.	● Our auditing of information technology was not comprehensive.	● We included information technology risk into our comprehensive risk management system.	● We have implemented corresponding rectification measures and submitted the rectification report in May 2015.
	● Deficiencies exist in respect of electronic banking, business outsourcing and other aspects.	● There were some weak links in our system development test; technical skills and qualities of our system developers shall be improved.	● We enhanced the risk prevention standards in respect of electronic banking, business outsourcing and other aspects.	● We have implemented corresponding rectification measures and submitted the rectification report in May 2015.

Time of inspection report	Major issues and guidance opinions	Reasons	Our principal rectification measures	Time of completion of rectification
	● Strengthen the development of business continuity management system and enhance our ability to handle unexpected incidents.	● Business continuity management was inadequate. All of our disaster recovery facilities were in Qingdao.	● We further extended the application of information technology infrastructure library ("ITIL") according to ISO20000 standards, and expanded the disaster recovery coverage of major systems through establishing disaster recovery facilities.	● We have implemented corresponding rectification measures and submitted the rectification report in May 2015.
April 2015	**Internal control**			
	● Optimize incentive and control mechanisms and establish a scientific performance appraisal system.	● The performance appraisal system needed improvement.	● We formulated management measures on the ranking of our employees and reformed our remuneration system.	● We have implemented corresponding rectification measures and submitted the rectification report in May 2015.
	● Strengthen internal audit on compliance and improve the supervision and rectification policies and procedures.	● Performance of our compliance management department and internal audit should be improved.	● We appointed a deputy general manager to the audit department and expanded our audit team. We also improved on our auditing work on information technology and other areas.	● We have implemented corresponding rectification measures and submitted the rectification report in May 2015.

Time of inspection report	Major issues and guidance opinions	Reasons	Our principal rectification measures	Time of completion of rectification
April 2015	**Corporate governance**			
	● Improve the corporate governance mechanisms and enhance the performance of various entities and departments.	● The composition of our Board and Board of Supervisors did not comply with regulatory requirements. Committees under our Board should perform their duties more proactively and effectively.	● We further improved the structure and the professional composition of our Board and Board of Supervisors and guided our Directors and Supervisors to perform their duties diligently. We have also assisted the Board of Supervisors to perform their regulatory supervisory roles.	● We have implemented corresponding rectification measures and submitted the rectification report in May 2015.
April 2015	**Business management**			
	● Promote reforms to the Financial Market Business Unit and interbank business to enhance management of risks related to new off-balance sheet operations and interbank business, and reforms to management models of branches and sub-branches in response to the rapid growth of our Bank's business.	● Not applicable.	● We established various levels of authority for officers of our financial market business, and centralized the management of different departments to the core sub-branches.	● We have implemented corresponding rectification measures and submitted the rectification report in May 2015.

Time of inspection report	Major issues and guidance opinions	Reasons	Our principal rectification measures	Time of completion of rectification
April 2015	**Social responsibility**			
	● Strengthen our financial service to key areas and weak areas.	● Not applicable.	● We supported the development of inclusive finance, accelerated product innovation and improved efficiency of our financial services.	● We have implemented corresponding rectification measures and submitted the rectification report in May 2015.

As of the Latest Practicable Date, the relevant local CBRC offices had not issued additional opinions on our rectification measures adopted in accordance with the regulatory opinions, and we had not received any request for additional rectification measures or notice of penalty. Based on the above findings from the inspections of relevant local CBRC offices, we believe that there are no material deficiencies in our business operation, internal audit, internal control and risk management, and such findings do not have any material adverse effect on our business, financial position or results of operation.

PBoC

Relevant local branches of PBoC will conduct regular and *ad hoc* inspections on us, including on-site inspections of our head office, branches and sub-branches. Based on such inspections, the relevant local branches of PBoC issue inspection reports specifying their findings and suggestions.

During the Track Record Period and as of the Latest Practicable Date, the relevant local branches of PBoC have conducted various inspections on us. The key issues and major guidance opinions issued according to the inspection and our major rectification measures are summarized as follows.

Time of inspection report	Major issues and guidance opinions	Reasons	Our principal rectification measures	Time of completion of rectification
December 2012	● In respect of our treasury centralized payment business, issues including non-compliance with reconciliation work of zero balance accounts, the lack of standardized refund procedures and opening of general accounts for special funds for regional financial departments in violation of rules were identified.	● Management on the financing activities of zero-balance accounts and credit control was inadequate.	● We carried out comprehensive self-assessment of the centralized treasury payment business. Our treasury centralized payment system was refined by revising the relevant regulations. Training for treasury centralized payment business was strengthened.	● We have completed the rectification and submitted the rectification report in December 2012.
October 2013	● In respect of major information system security, certain equipment in our server rooms required improvement.	● The fire extinguishing system, humidity controller and closed circuit television in the server room did not fulfill standards.	● We installed new equipment in our server rooms and adjusted relevant parameters in order to meet the A-class server room standard. New server rooms will be established in strict compliance with the A-class server room standard.	● We have completed part of the rectification and scheduled all rectification measures in our working plan. The rectification report was submitted in January 2014.

Time of inspection report	Major issues and guidance opinions	Reasons	Our principal rectification measures	Time of completion of rectification
October 2014	● In respect of information security, there was a lack of formal documents setting out a framework of information security work and formal documents defining the management and supervisory duties as well as regular internal audits on relevant aspects. Resources for system operators were also insufficient.	● Relevant rules of information technology management were not approved by the Board, and the related committees did not perform their duties strictly. Management on outsourced system operators should be improved.	● We formulate annual strategy and goals for information security based on ISO27001 standards. We also conduct special annual audits on information technology risks and recruit additional technology professionals.	● We have completed the rectification and submitted the rectification report in October 2014.

We completed the rectification measures within the timeframe as required by the relevant local branches of PBoC. As of the Latest Practicable Date, the relevant local branches of PBoC had not issued additional opinions on our rectification measures adopted according to the regulatory opinions, and we had not received any request for additional rectification measures or notice of penalty. Based on the above findings from the inspections of the relevant local branches of PBoC, we believe that there is no material deficiencies in our business operation, internal audit and risk management, and such findings do not have any material adverse effect on our business, financial position or results of operation.

Regulatory Indicators of Liquidity

During the Track Record Period, we had incidents of failure to meet the requirements of the core liabilities ratio and liquidity gap ratio requirements under the Core Indicators (Trial). For details of such incidences, see "Supervision and Regulation—Other Operational and Risk Management Ratios". Effective March 1, 2014, the above referenced ratios ceased to be the regulatory indicators of liquidity required to be maintained by commercial banks. As of the Latest Practicable Date, these incidences of non-compliance had not resulted in any penalty against us or any material adverse effect on us.

Employee Non-compliance

We investigate into non-compliance incidents involving our employees, customers and other third parties from time to time. Such non-compliance incidents mainly include violation of our credit approval procedures, teller operation procedures and internal rules on financial accounting. None of our Directors and senior management has been involved in any non-compliance incidents. We believe that such non-compliance incidents, individually or aggregately, will not have any material adverse effect on our business, financial position and results of operation. During the Track Record Period, we were not aware of any material non-compliance incidents involving suspected criminal conduct by any of our employees.

Our Directors believe that, based on the findings of the regulatory authorities, there has been no material deficiency in our business operation, internal audit, internal control and risk management.

Anti-Money Laundering

No material money laundering incidents had been identified or reported to the senior management during the Track Record Period. For the details of our anti-money laundering measures, see "Risk Management—Legal and Compliance Risk Management—Anti-Money Laundering".

OVERVIEW

The primary risks arising from our operations are credit risk, market risk, liquidity risk and operational risk. We are also exposed to other risks, such as information technology risk, reputational risk and legal and compliance risk.

Our Risk Management Objectives and Principles

Our risk management objectives are as follows:

- to ensure compliance with all applicable PRC laws and regulations as well as our policies and procedures;
- to ensure effective implementation of our development strategies and achievement of our business targets while controlling risks at an appropriate and acceptable level in line with our objectives;
- to ensure the timeliness, accuracy and completeness of our business records, financial information and other management information;
- to ensure the effectiveness of our risk management system and the establishment of contingency plans in response to various significant risks to avoid substantial losses due to risks arising from disasters or human errors; and
- to develop a sound risk management culture and to raise staff's awareness of risk management.

Our risk management is principled on comprehensiveness, prudence, effectiveness and independence.

- Comprehensiveness: centralized risk management with prevention, control and management covering all business processes as well as all operational procedures and all departments and positions to prevent any omissions or loopholes in risk management;
- Prudence: based on the principles of risk prevention and prudential operations, internal control in our operations and management is our first priority. In particular, in opening new branches and sub-branches and launching new businesses;
- Effectiveness: clear division of responsibilities between different departments and positions with effective checks and balances. Business operations and risk control shall be appropriately segregated. Our risk management system is given high authority and problems identified shall be promptly addressed and rectified; and
- Independence: the departments responsible for supervision and assessment of risk management are independent from other departments and have direct reporting lines to our Board of Directors, Board of Supervisors and senior management.

Recent Risk Management Measures

In recent years, we have adopted various measures to further improve our overall risk management, including the following:

We have implemented sound risk management strategies and established a risk management framework with centralized management and effective operation. In particular,

- we have established a risk management organizational structure with clear division of responsibilities and effective checks and balances with clear reporting lines under our corporate governance structure, centered around Shareholders' general meetings, the Board of Directors, the Board of Supervisors and senior management;

- we have implemented a comprehensive risk management framework, consisting of various departments responsible for management of different risk types under the centralized management of the Risk Management Committee and a risk management system covering the management of credit risk, liquidity risk, market risk, operational risk and other risks;
- we adhere to a prudent business philosophy and rigorous risk management principles, maintain prudent risk preferences with strict risk limits, and ensure bank-wide implementation of our risk management preferences and relevant measures to facilitate our sustainable and sound operation;
- we have established a set of rigorous and comprehensive risk management policies and procedures. We have designated the years of 2012, 2013 and 2014 as the "Year of Establishment" (制度建設年), "Year of Implementation" (制度執行年) and "Year of Assessment" (制度評價年), respectively, and organized activities to refine and supplement our policies and procedures covering the management of all risk types to ensure timely adjustment in response to changes in our operating environment.

We have further refined and streamlined risk management procedures and mechanisms. In particular,

- we have implemented weekly on-site inspections by senior management. An inspection team led by the senior management of our head office conducts, on a weekly basis, *ad hoc* on-site inspections on certain outlets in order to identify compliance and operational issues, lapses in our implementation of policies and procedures, and potential risks. Results of the inspections are reported to the weekly meetings organized by our President at the head office to identify responsibilities and monitor remediation;
- we have adopted a compulsory leave system, under which a professional team organized by our head office performs the duties of key positions of our outlets, such as sub-branch heads, key management personnel and business operation personnel, on an *ad hoc* basis while such personnel are placed on compulsory leave. This has enabled us to identify potential issues in our business operations and effectively prevent operational risks and moral hazards of employees;
- we have strengthened our internal control evaluation system. We hold regular internal control evaluation meetings at our head office and branches and conduct in-depth analysis on specific issues identified during our day-to-day reviews of business operations for accurate assessment and effective remediation. We also perform self-evaluations, risk investigations and rectifications on the implementation of our risk management and internal control policies and procedures;
- we have established an effective incentive mechanism and accountability system. With the application of such management tools such the Balanced ScoreCard, economic capital and economic value added (EVA), we have set key indicators for risk management. We have also established an incentive mechanism covering our head office, branches and sub-branches and imposed strict disciplinary measures on non-compliance on a timely basis; and

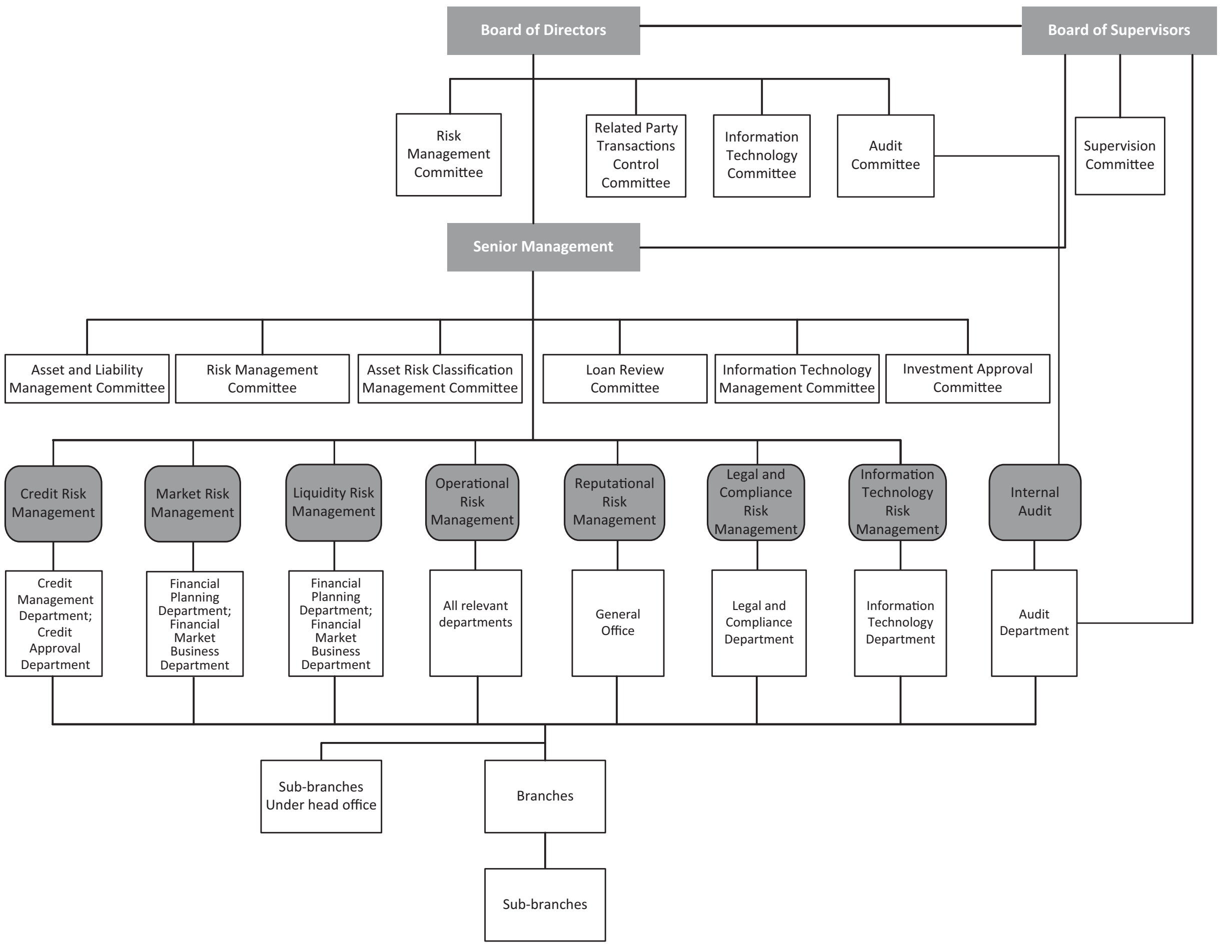
- we have engaged internationally renowned independent institutions to audit and review our risk management and internal control in order to identify and remediate issues and risks and to enhance our risk management capabilities.

We have strengthened and refined our risk management methodologies and measures. In particular,

- in respect of our credit business, our credit approval function, operated under a tiered credit approval system, is independent from credit extension. A substantial portion of our credit extension requires approval from our head office. Based on the nature and risk profile of a transaction and the authorization limits of various credit approvers, we have adopted different approval procedures where credit extensions are approved by dual individual reviewers or by our loan review committee;
- we have given credit approval authority to designated approvers in our small enterprise financing department and trade finance business unit as well as certain special sub-branches. We have also introduced chief reviewers in the credit approval process for our personal loan business. These chief reviewers conduct compliance review on our personal loan business and provide opinions, which form the basis for credit approval decisions by our authorized credit approvers. We believe that the introduction of chief reviewers in our personal loan business helped our branches and sub-branches improve their risk control capability;
- we have refined the mix of our existing asset portfolios and introduced a number of portfolio management methodologies, including market entry criteria for various industries, customer lists, customer ratings, approval authorization, performance evaluation, portfolio monitoring and early warning. We have also improved the effectiveness of implementation of our credit policy through such methodologies as economic capital, the size of loans and differentiated provisioning;
- our asset business is the essential part of our credit risk management, and we have strengthened legal documentation management and operational compliance to ensure the validity of our collateral to avoid asset losses;
- we have utilized assets and liabilities information technology system and sound measurement methodologies and models to assess our cash flows, and measure, monitor and control our cash flows in an effective manner. We have conducted forward-looking analysis on the liquidity risk profile and highly liquid assets in different time intervals under different scenarios to effectively mitigate liquidity risk;
- we have adopted continuous monitoring measures to prevent information technology risk, ensure information security, develop our information technology systems and manage our business continuity. We have formulated contingency plans for our application systems and established application and data recovery centers in and outside Qingdao; and
- we have further improved the methodologies and techniques to identify and assess various risks and established relevant systems to identify, measure, monitor and control risks. We have developed and applied various quantitative risk assessment methodologies and models to accurately and effectively assess and identify various types of risks.

ORGANIZATIONAL STRUCTURE OF RISK MANAGEMENT

As of the date of this prospectus, our risk management organizational structure is as follows:



Board of Directors and Board Committees

Our Board of Directors is ultimately responsible for risk management. It formulates our bank-wide risk management policies and supervises their implementation, determines our overall risk appetite, and reviews and approves our risk management objectives and strategies. Under the supervision and monitoring of our Board of Directors, our senior management is responsible for establishing the appropriate risk management framework. It sets exposure limits on our credit risk and liquidity risk, and sets up our authorization hierarchy for market risk exposure limits. Our Board of Directors also assesses the adequacy and effectiveness of our risk management and regularly reviews the risk levels acceptable to us based on risk assessment results. It performs risk management functions through the Risk Management Committee, the Related Party Transactions Control Committee, the Information Technology Committee and the Audit Committee under the Board of Directors.

Our Board of Directors and the Risk Management Committee review reports on our credit risk, anti-money laundering, information technology risk and reputation risk on an annual basis, reports on market risk, compliance risk and operational risk on a semi-annual basis, and reports on liquidity risk management and stress tests on a quarterly basis. Through regularly reviewing various risk management reports, our Board of Directors assesses the effectiveness of risk management measures, provides requirements and guidance on the focus areas of risk management and monitors their implementation on a regular basis.

Risk Management Committee

The Risk Management Committee is primarily responsible for reviewing our risk management policies based on our overall strategy, monitoring and evaluating the implementation and effectiveness of our risk management policies and providing recommendations to our Board of Directors accordingly. In addition, this committee reviews our risk reports, conducts regular assessments on our risk management policies and procedures as well as our risk profiles and risk tolerance levels. It provides advice to our Board of Directors on how to improve our risk management and internal control. It also supervises and evaluates our senior management's risk control activities with respect to credit risk, market risk, liquidity risk, operational risk, compliance risk, information technology risk and other risks. The Risk Management Committee currently consists of five members and is chaired by our President.

Related Party Transactions Control Committee

The Related Party Transactions Control Committee is primarily responsible for identifying Related Parties and connected parties, as well as reviewing and approving Related Party Transactions and connected transactions within the authorization granted by our Board of Directors, and reviewing significant Related Party Transactions and connected transactions subject to approval by our Board of Directors or our Shareholders Meetings and reporting to the Board of Directors. This committee also assesses the status of our Related Party Transactions and connected transactions, and reviews the control framework with respect to these transactions. The Related Party Transactions Control Committee currently consists of five members and is chaired by an independent director.

Information Technology Committee

The Information Technology Committee is primarily responsible for developing our information technology strategies to be submitted to our Board of Directors for review, as well as overseeing our information technology risk management. It reviews information technology risk management reports, business continuity management reports and reports on the implementation of our strategic plans, and provides advice to our Board of Directors. The Information Technology Committee currently consists of five members and is chaired by an independent director.

Audit Committee

The Audit Committee is responsible for reviewing our accounting policies, financial condition, financial reporting procedures, our annual financial budgets, final financial reports and their significant changes and adjustments, as well as our profit distribution policies and annual profit distribution plans. It also advises our Board of Directors on the engagement of external auditors and supervises their work, oversees and assesses our internal audit function and monitors our internal control. The Audit Committee currently consists of five members and is chaired by an independent director.

For details of the functions and authorities of our Board of Directors, as well as the responsibilities and compositions of the Risk Management Committee, the Audit Committee, the Related Party Transactions Control Committee and the Information Technology Committee, see "Directors, Supervisors and Senior Management—Committees under the Board" and Appendix V—"Summary of Articles of Association" to this prospectus.

Board of Supervisors and its Special Committee

Our Board of Supervisors oversees our Board of Directors and senior management on risk management and monitors the compliance by us and our Board of Directors and senior management with applicable laws and regulations as well as our risk management policies. The Supervision Committee under our Board of Supervisors is primarily responsible for monitoring and supervising our Board of Directors and senior management and evaluating the effectiveness of our bank-wide risk management.

For a detailed description of the responsibilities of the Board of Supervisors, see "Directors, Supervisors and Senior Management—Supervisors".

Senior Management and Special Committees

The senior management of our head office is the most senior execution team in our risk management organizational structure, responsible for implementing our risk management policies and executing our risk management strategies, plans and policies as determined by the Board of Directors and coordinating the work and operation of our risk management.

We have established the asset and liability management committee, the risk management committee, the asset risk classification management committee, the loan review committee, the information technology management committee, and the investment approval committee at the senior management level. Each committee, generally consisting of our President, the Vice Presidents in charge of the respective functions and the heads of the related business departments, is responsible for organizing, coordinating and inspecting our risk management functions.

Asset and Liability Management Committee

The asset and liability management committee is responsible for reviewing and determining assets and liabilities management related matters. Our President chairs this committee, and the Vice President in charge of our financial planning acts as the vice-chair. Other members of this committee consist of the heads of relevant business and functional departments.

Risk Management Committee

The risk management committee is responsible for our credit risk management, market risk management, operational risk management and internal control.

Our President chairs this committee, and the Vice President in charge of risk management acts as the vice-chair. The standing committee members include the heads of the financial planning department, the legal and compliance department, the credit management department, the credit approval department, the information technology department, the corporate banking department, the trade finance business unit and the retail banking department.

Asset Risk Classification Management Committee

The asset risk classification management committee is responsible for the review of our bank-wide credit asset classification policies and systems and makes decisions on significant matters in respect thereof. The committee is also responsible for the approval of the classification results beyond the authorization of the credit management department of our head office and branches and the classification of our assets under the "loss" category. This committee is chaired by our President and consist of additional nine members, namely, the Vice President in charge of risk management and the heads of the financial market business department, the corporate banking department, the trade finance business unit, the retail banking department, the small enterprise financing department, the legal and compliance department, the credit approval department and the credit management department.

Loan Review Committee

The loan review committee is responsible for the review and approval of credit applications submitted by our branches and sub-branches as well as the relevant departments of our head office pursuant to our credit approval system and authorizations. This committee is chaired by our Vice President in charge of risk management. Other members consist of the experts from the credit management department and from ISP, the head of the credit approval department and three senior credit reviewers from the credit approval department.

Information Technology Management Committee

The information technology management committee is responsible for the planning on the construction of our information technology infrastructures and information security management as well as the review of important matters relating to our information technology systems. This committee reports periodically to our Board of Directors and senior management on the implementation of our strategic plans, our budgets and expenditures on information technology and our overall information technology status. Our President chairs this committee, and our Chief Information Officer acts as the executive chief. Other members of this committee consist of the heads of relevant business and functional departments.

Investment Approval Committee

The investment approval committee is responsible for the review, decision-making and management of our investment business (excluding our loan assets). This committee is chaired by our President and consists of eight additional members, namely, the Vice President in charge of risk management, the Assistant President in charge of retail banking business, and the respective heads of the financial market business unit, the corporate banking department, the trade finance business unit, the retail banking department, the credit approval department and the credit management department.

Risk Management Departments at Our Head Office

Our head office oversees all risk management activities and supervises the risk management functions at our branches and sub-branches. We have established the following designated risk management departments at our head office, each responsible for managing risks in its respective area: the credit management department, the credit approval department, the financial planning department, the legal and compliance department and the audit department. Their primary responsibilities are as follows:

- Credit Management Department. The credit management department is responsible for our credit risk management. It develops and updates our credit policies and guidelines and formulates implementation procedures and operational standards. It conducts credit classification of our credit assets based on the five category classification criteria under the applicable regulatory requirements. It is also responsible for the authorization management of our credit business.

- Credit Approval Department. The credit approval department is primarily responsible for reviewing and approving credit extensions to our customers.
- Financial Planning Department. The financial planning department is responsible for the overall management of our assets and liabilities. It monitors various financial and regulatory indicators and generates risk alerts. It is also responsible for the management of our liquidity risk and market risk.
- Legal and Compliance Department. The legal and compliance department is responsible for our bank-wide legal and compliance risk management. It coordinates and handles loan collection and disposal processes and manages our legal and regulatory proceedings. It is responsible for identifying, monitoring and reporting compliance risk and developing and executing compliance programs. This department also oversees and coordinates our anti-money laundering operations.
- Audit Department. The audit department is responsible for the audit and evaluation of our operations and management, business activities and financial performance. It reports to our Board of Directors, and is subject to examination, supervision and evaluation of the Audit Committee under our Board of Directors. It is also supervised by our Board of Supervisors.

Risk Management Framework at Our Branches and Sub-branches

We have established risk management departments at our branches, responsible for implementing risk management policies and procedures formulated by our head office. They are also responsible for alerting and mitigating credit risk, operational risk and other risks of our various businesses. Our branches oversee risk management of the sub-branches under their supervision. The risk management department at each of our branches is required to report major risk events to the branch management, as well as the functional departments at our head office responsible for managing risk in the respective areas, and take remediation measures under the supervision of the respective functional departments at our head office.

We have developed standard operation manuals covering authorizations and policies for credit extension, credit review and approval procedures and credit classification standards, which our branches are required to follow. We update the manuals from time to time and distribute them to our branches on a timely basis. Our head office grants credit authorization limits to each branch based on its business development capability, risk profile of its business and its internal control.

CREDIT RISK MANAGEMENT

Credit risk is the risk of loss from the failure by an obligor or counterparty to meet its obligations in accordance with agreed upon terms. We are exposed to credit risk primarily through our loan portfolio, investment portfolio, guarantees and various other on- and off-balance sheet credit risk exposures.

We have built an end-to-end credit risk management infrastructure to cover our entire credit business processes, with established policies and procedures to identify, assess, measure, monitor, mitigate and control credit risks. We have established a bank-wide standardized authorization and credit extension management system. We seek to improve our overall credit risk management capabilities through a variety of methods, including introducing additional quantitative measures to measure credit risk, building up an internal rating system on customers, upgrading our credit risk management information system, and further tightening credit review and monitoring.

Credit Policies

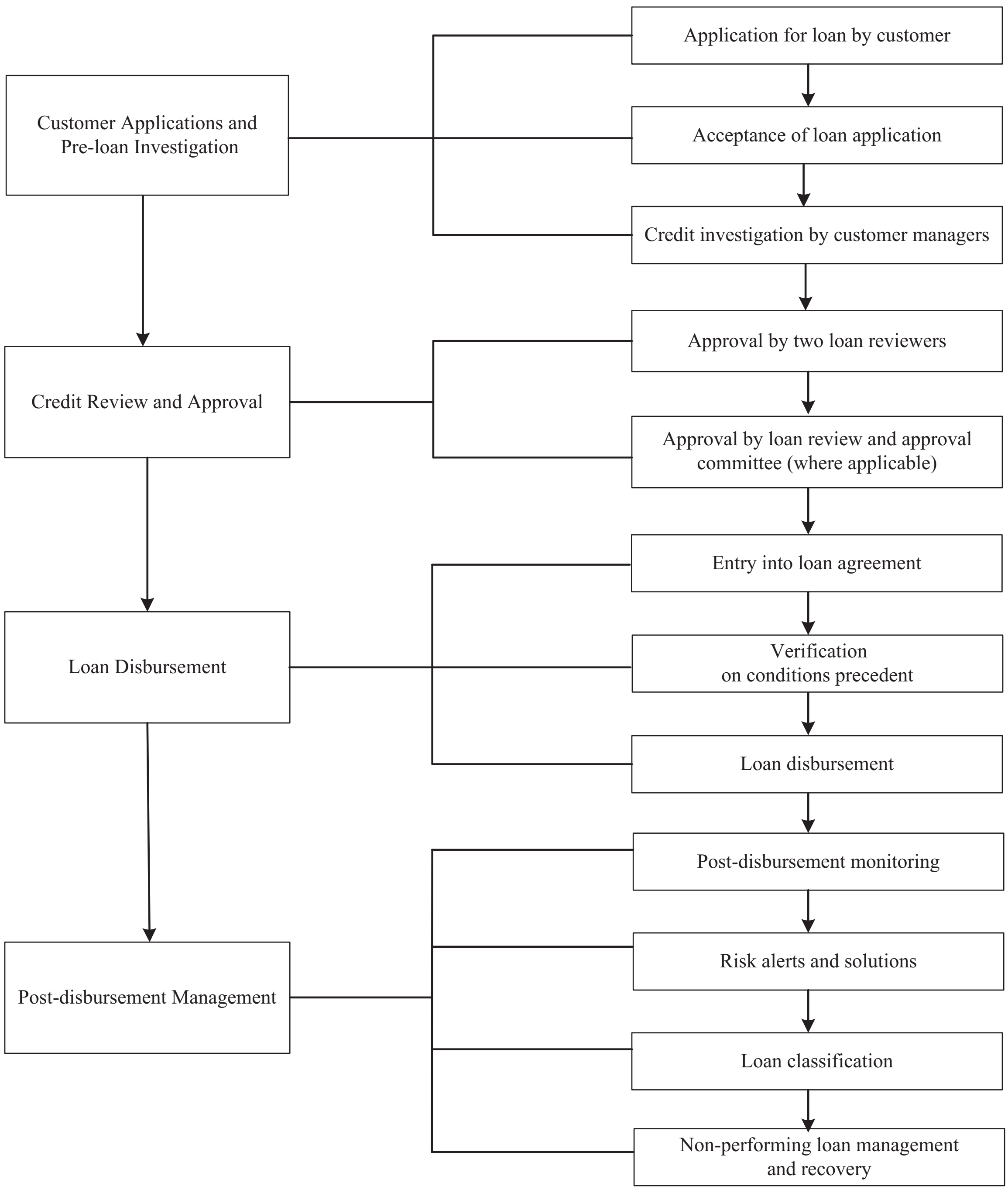
We seek to maintain a balance between our loan growth and a prudent risk management culture. We have developed credit policies setting forth credit extension guidelines for various industries, customer types and products, which are generally reviewed and updated on an annual basis, and also adjusted upon changes in macroeconomic policies and industry policies. We implement credit policies to limit exposure to high risk industries and customers, prioritize credit extensions to targeted industries and customers with appropriate product offerings and adjust the composition of our loan portfolio. Our credit policies are formulated and adjusted based on our analysis of the macroeconomic environment and outlook, industry policies and our existing loan portfolio compositions in terms of customer, industry, geographic location, collateral and maturity.

We have developed industry-specific corporate credit policies to divide our corporate customers into four industry categories: “prioritize and support”, “support with caution”, “limit exposure” and “reduce exposure or exit”. We have adopted credit exposure limits for certain high-risk industries, such as the real estate industry, and seek to further control our exposure to the industries with severe overcapacity, such as the steel and non-ferrous metal industries.

In addition, our credit policies differentiate among large corporates, SMEs and retail customers and set different guidelines for various product types. For example, our credit policies strongly support loans to SME customers and personal consumption loans to prioritize our credit extensions to small and micro enterprises and retail customers with good credit profiles.

Credit Risk Management for Corporate Loans

Our risk management procedures with respect to corporate loans include pre-loan investigation, credit review and approval, loan disbursement and post-disbursement management. The following flow chart illustrates the basic process of our corporate credit business:



Customer Applications and Pre-Loan Investigation

We commence the pre-loan investigation process upon the submission of a corporate loan application by the customer. The applicant is generally required to provide necessary supporting documents, such as organizational documents and financial statements of the applicant and, where applicable, the guarantors. Upon our receipt of the application, we conduct pre-loan investigation and review the applicant's credit profile pursuant to our established procedures and criteria. Our customer managers are required to collect customer information, review credit application materials and prepare a credit investigation report. In order to control operational risk in the pre-loan investigation process, we have adopted a "two-person investigation" policy. Under this policy, pre-loan investigation is performed by two customer managers who are required to conduct on-site credit investigations by checking the borrower's business premises and manufacturing equipment and interviewing their managers and staff, and prepare a credit investigation report.

We focus on the following information in conducting credit investigations: (i) the risk associated with the industry in which a borrower operates; (ii) the borrower's financial condition, such as cash flows, income, total assets and sources for repayment; (iii) the competitiveness and growth potential of the borrower's business; (iv) the intended use of the loan proceeds; (v) the credit history of the borrower; and (vi) creditworthiness of the guarantor(s) and the value of the collateral.

We seek to leverage our knowledge and experience in dealing with local customers to obtain additional information for credit review. For example, for loans to SME customers, in addition to the standard set of information required for a credit application, we also analyze various non-financial factors, such as the business owners' experience in starting up the business and other personal experiences, in determining their risk profile.

Customer Credit Rating

We rate our corporate customers based on our internal credit rating criteria. We maintain a 11-grade credit rating system, namely, AAA, AA, AA-, A, A-, BBB, BB, B, CCC, CC and C, and assign a rating to a customer based on quantitative and qualitative assessments of its creditworthiness.

We currently have two credit rating models for large and medium corporates and SMEs, respectively. We rate the credit of our large and medium corporate customers using 9 industry-specific scoring categories, containing both quantitative and qualitative indicators.

A credit rate is generated automatically by our credit rating system once a customer manager enters the required financial and operating information of the borrower in the system. The customer managers and loan reviewers may request a change to the credit rating generated by the system if they have grounds, subject to approval by the authorized personnel at our head office and branches.

We generally re-rate each customer and guarantor on an annual basis. An immediate adjustment to the credit rating of a borrower is triggered upon a significant change in the financial condition or business operations of the borrower or the occurrence of any other events that may materially and adversely affect its ability to repay our loan.

Customer credit rating results have been used in our credit review and approvals, loan pricing, post-loan monitoring, loan classifications, loan loss provisioning and economic capital allocation.

Evaluation of Collateral and Guarantees

For loans secured by collateral, we conduct collateral appraisals prior to loan approval. The value of collateral can be determined either by third-party appraisers approved by us or based on our internal evaluation. We evaluate collateral based on its market value, expected returns and replacement cost.

Loans secured by collateral are generally subject to the following loan-to-value ratio limits, depending on the type of collateral. During the Track Record Period, our loan-to-value ratios for various types of collateral were within the respective limits as set forth below.

Type of Collateral	Maximum Loan-to-Value Ratio
Mortgages	
Residential buildings	70%
Office buildings, commercial buildings, granted land use rights (including buildings on the land)	60%
Construction in progress, manufacturing equipment, vessels, aircrafts, and vehicles	50%
Allocated land use rights (including buildings on the land) and other properties	40%
Pledges	
Cash and certificates of time deposit, PRC government bonds, gold, silver and other cash equivalents	90 – 100%
Bank promissory notes, bank acceptance bills	85 – 100%
Financial bonds	90%
Warehouse receipts, bills of lading, tangible assets	70%
Escrow accounts for export tax rebate	55 – 70%
Tradable stock, fund units and corporate/enterprise bonds	60%
Equity interest in non-listed companies	40%

We generally require regular reappraisal of collateral. Real properties are generally reappraised on an annual basis upon the anniversaries of the loan disbursement. Tangible assets or other relevant collateral are reappraised on a quarterly basis. We conduct daily mark-to-market on tradable stock and commodities warehouse receipts and determine their values based on their market prices on each day. Upon declines in market prices below the range set by the credit approval opinion (generally 5%), additional collateral or security deposits are required to ensure the adequacy of our collateral.

In respect of a third-party guarantor, we assess the guarantor's financial condition, credit history and ability to meet its obligations to determine the appropriate guarantee amount.

Credit Review and Approval

Our credit approval function for corporate loans is performed by our head office and branches in accordance with their respective authorizations.

At our head office, the credit approval department and the Vice President in charge of credit risk management have credit approval authorizations. In addition, the trade finance business unit, the small enterprise financing department and the Vice Presidents in charge of these two departments are granted credit approval authorization within their respective businesses. Trade finance and small business loans are reviewed by the credit approval officers in the respective department, who are designated by the credit approval department, and are approved by the person in charge of such department, within their respective authorizations; and in cases where the authorization limits of the credit approval officers are exceeded, such trade finance and small business loans are submitted to the Vice President in charge of the respective business or the loan review committee for approval in accordance with their respective authorization limit.

At our branches, the branch heads are authorized by our head office to approve corporate credit applications within their respective authorization limits.

Our sub-branches generally do not have credit approval authority, with the exception of our technology sub-branch under the direct supervision of our head office and a few selected sub-branches with good credit performance, which are granted limited credit approval authority.

General Corporate Loans (Excluding Trade Finance and SME Loans)

Upon the receipt of the credit investigation report and supporting materials of the borrower, a loan application is reviewed by the business head of the originating sub-branch before submission to the sub-branch head for review. Loan applications originated from the sub-branches in Qingdao under direct supervision of our head office are then passed on to the credit approval department of our head office, depending on the types of loans involved. Loan applications originated from sub-branches under supervision of our branches are submitted to the credit approval department of the supervising branch for review.

Loan applications submitted to our credit approval departments at our branches are subject to review by two credit approval officers. The first reviewer reviews and signs the loan application before passing on to a senior credit approval officer acting as the principal loan reviewer.

Upon the completion of review by the credit approval department at the branch, the loan application is submitted to the loan review committee at the branch for further review. A credit approval can be granted by the branch head within his authorization limits based on the approval by the loan review committee and endorsement by the responsible deputy branch head. Loan applications exceeding the branch head's authorization limits are submitted to the credit approval department of our head office for review. Loan applications exceeding their authorization limits are submitted to the loan review committee of our head office for review and approval.

Upon the review by credit approval officers at our head office, the loan application can be approved by the head of the credit approval department if it falls within his authorization limit. Loan applications exceeding such authorization limits are submitted to the respective responsible Vice President of our head office or the loan review committee of our head office for review and approval. An approval by the loan review committee of the head office can be vetoed by our President.

The loan review committee at our head office review loan applications through regularly held meetings, which must be attended by at least six attendees. An approval requires more than four votes in favor of the loan application and no more than two votes against the loan application. Our branches have formulated the procedural requirements for their loan review committee meetings based on the procedures of our head office.

Trade Finance and SME Loans

Trade finance and SME loans within the authorization limits of our branches are approved at the originating branch following the same credit approval procedures as applicable to general corporate loans. Trade finance and loans to SMEs exceeding the authorization limits of our branches are submitted to the credit approval department, the trade finance business unit or small enterprise financing department, as applicable, of our head office. Trade finance and SME loan applications originated in the sub-branches in Qingdao under direct supervision of our head office are passed on to the credit approval department, or the trade finance business unit or small enterprise financing department, as applicable, of our head office for approval in accordance with their respective authorization limits. Trade finance and SME loan applications submitted to the trade finance business unit or small enterprise financing department, as applicable, of our head office are reviewed by the credit approval officers designated by the credit approval department of our head office. Credit applications that have passed their review can be approved by the head of the trade finance business unit or small enterprise financing department, as applicable, or the respective responsible Vice President of our head office in accordance with their respective authorization limits. Loan applications exceeding the authorization limit of the aforesaid credit reviewers are submitted to the loan review committee of the head office for review and approval. Approval for loan applications by the loan review committee can be vetoed by our President.

Loan Disbursement

Upon the approval of a corporate loan application, we enter into a loan agreement and ancillary agreements with the borrower, setting forth the key terms of the loan and, where applicable, the collateral. We have established a specialized team to be responsible for the review of the completeness and truthfulness of the documents provided and to ensure that all conditions precedent specified in the loan agreement are satisfied. Our loan disbursement center disburses the loan only upon the confirmation of the compliance with the loan agreement and applicable regulatory requirements, perfection of security interest in collateral and the completion of other required procedures for loan disbursement.

Post-disbursement Management

Our post-disbursement management consists primarily of monitoring of the use of loan proceeds, post-disbursement inspections, risk monitoring and alert, collateral management, loan risk classification, overdue loan management, non-performing loan management and related reporting.

We closely monitor the use of the loan proceeds to ensure that the funds are being used for the purposes specified in the loan agreement.

We conduct regular and *ad hoc* reviews on the financial and other conditions of our borrowers. During regular on-site visits, we interview senior management of the borrowers, inspect inventories and business premises and facilities, and review management accounts. The frequency of our subsequent post-disbursement inspections varies depending on the classification of loans and the customer type. We generally visit our borrowers on a three-month interval with certain exceptions. For example, we visit the borrowers of loans classified as special mention or non-performing on a monthly basis, and small enterprise borrowers to whom our credit exposure is below RMB3 million every six months. We conduct *ad hoc* inspections and take risk mitigating measures upon our awareness of significant risks in the borrower's industry, material adverse changes in the borrower's business or other risk alerts identified through our on-site inspections or off-site monitoring.

To identify and mitigate credit risks at an early stage, we have established risk alert mechanisms for our corporate loans at both our head office and branches. We classify credit risk alert signals into general alerts and significant alerts based on the severity of the risk. The alert signals on financial and quantitative indicators are assessed and generated by our credit risk management system, and non-financial alerts are entered into our credit risk management system and initiated by the responsible personnel. Our customer managers are required to check credit risk alerts on a daily basis and report significant alerts within three days.

With respect to collateral management, we have rolled out standardized procedures, tightened the management of third-party appraisers and improved collateral documentation. Our business departments are responsible for recording collateral information in our credit risk management system. Our credit management department generally requires prompt disposal of the collateral, or requests additional collateral or early repayment of the loan, upon indications of damage or declines in value of the collateral.

Loan classification is an important part of our ongoing loan monitoring. For risk management purposes, we have refined the five-category loan classification (normal, special mention, substandard, doubtful and loss) as required by CBRC into 12 categories for corporate loans, which include four categories of normal loans, three categories of special mention loans, two categories of substandard loans, two categories of doubtful loans and one category of loss loans. We consider the loans in the substandard, doubtful and loss categories as non-performing loans. The factors we consider when classifying our loans include, among other factors, the borrower's repayment ability, repayment records, willingness to repay and default history, guarantees, collateral and the profitability of the projects funded by the loan proceeds. Our credit management departments at the head office and branches conduct loan classification under the supervision of our asset risk classification management committee. Loans are classified at least on a quarterly basis and can be reclassified immediately following our monthly loan monitoring.

We conduct on-site inspections or off-site monitoring of borrowers before their loans mature to evaluate their repayment ability and repayment intention. We remind borrowers of timely payments through telephone interviews, on-site visits and written notices one month prior to the maturity date of their loans. We take risk mitigation measures against the borrowers whose repayment ability or repayment intention is in question. Furthermore, we have formulated contingency plans to manage significant non-performing loans of over RMB1 million.

We proactively manage non-performing loans to reduce credit risk and seek to improve our recovery on disposals. We formulate strategies and disposal plans for each non-performing loan. We seek to recover non-performing loans through multiple means, including cash collection, foreclosure on collateral, legal proceedings and loan restructuring.

Credit Risk Management for Discounted Bill Business

Our discounted bill business is managed by our head office and branches. Our sub-branches are responsible for marketing but have not been granted approval authority. We have promulgated administrative measures and protocols for our bill discounting business, where the bill center at our head office, in accordance with the authorization of our head office, approves bill discounting business of our sub-branches in Qingdao that are under direct supervision of our head office, while our branches, in accordance with the authorization of our head office, approve the bill discounting business of the sub-branches under their respective supervision. We have implemented a policy to separate the operation of the front desks from the middle and back offices in managing our bill discounting business, and the bills are required to be examined by two reviewers. Our customer managers are required to conduct on-site inspections on the corporate customers requesting bill discounting and verify the truthfulness of the underlying transactions before submitting bill discounting applications through our credit risk management system. The approving departments at our branches or the bill center at our head office review the bill discounting applications and verify the authenticity of the bills. Upon the completion of the review, funds are disbursed by our settlement department at the back office. Prior to the maturity of the bills, our settlement department dispatches the bills to the acceptance banks, requesting repayment in accordance with the terms of the bills. Our credit management department classifies discounted bills based on the repayment status.

We accept discounted bills only from the customers who have clean credit histories and good business relationships with us. We seek to verify the truthfulness of the underlying transactions of the discounted bills and focus on the profitability, credit history and cash flows of the applicants.

Portfolio Management

We have established specific policies for credit risk management in key risk areas, including loans to local government financing vehicles, loans to real estate developers and loans to corporates in industries with overcapacity.

Credit Risk Management for Loans to Local Government Financing Vehicles

In accordance with the regulatory requirements of CBRC on credit risks arising from loans to local government financing vehicles, we have imposed exposure limits and adopted differentiated methods to manage loans based on their categories to mitigate risks. We have also developed a name list of local government financing vehicles that can be onboarded or maintained as our customers. We generally disburse loan proceeds to local government financing vehicles on installments and closely monitor their sources of repayment.

We focus on the fiscal income, existing debt and investment plans of local governments and seek to form reasonable assessments on local government financing vehicles' repayment ability. With respect to loans to local government financing vehicles, we focus on the customer onboarding criteria, credit investigation, project evaluation, monitoring of fund flows and post-disbursement management. We have tightened credit approval criteria and centralized credit approval authority for loans to local government financing vehicles at the loan review committee of our head office. We only grant new loans to borrowers with sufficient cash flows for full repayment and a gearing ratio lower than 80% as well as sufficient collateral or guarantees. With respect to the existing loans to local government financing vehicles, we seek to reduce our loan exposure to certain borrowers and replace them with the entities whose creditworthiness is stronger. We have also increased our efforts to recover loans to local government financing vehicles and ascertain their sources of funds in advance of repayment to prevent overdues.

As of December 31, 2012, 2013 and 2014 and June 30, 2015, our total outstanding loans to local government financing vehicles amounted to RMB3,627 million, RMB3,580 million, RMB4,043 million and RMB3,698 million, respectively, representing 10.5%, 8.5%, 8.6% and 7.2%, respectively, of our total corporate loans at the respective dates. As of June 30, 2015, our loans to local government financing vehicles was RMB3,698 million, including loans of RMB1,264 million to municipal government financing vehicles (representing 34.2% of our loans to local government financing vehicles) and loans of RMB2,434 million to district-level or county-level government financing vehicles (representing 65.8% of our loans to local government financing vehicles). In terms of the cash flow coverage ratio (cash flows of borrowers divided by the sum of principal of and accrued interests on loans), loans extended to borrowers with sufficient cash flows for full repayment of the principal and accrued interests amounted to RMB3,100 million, accounting for 83.8% of our loans to local government financing vehicles; loans extended to borrowers with sufficient cash flows to repay 70% to

100% of the principal of and accrued interests on loans amounted to RMB598 million, accounting for 16.2% of our loans to local government financing vehicles. Loans extended to borrowers with sufficient cash flow to repay 70% to 100% of the principal and accrued interests of loans are included in the debt budget plans of the local governments or covered by the funds for working capital replenishments that are regularly allocated to the borrowers under the local fiscal budget. We believe that the principal and interests on such loans can be repaid in full. Of these loans, RMB2,982 million was secured by collateral or guarantees, accounting for 80.6% of our total loans to local government financing vehicles as of June 30, 2015. None of our loans to local government financing vehicles were classified as non-performing at the same date.

Credit Risk Management for Loans to Real Estate Industries

We carefully study policies of the real estate industry and proactively collect market information to assess risks arising from the real estate market. The credit risk underlying our loan to the real estate industry mainly concentrated on our loans to the real estate developers. We have imposed exposure limits for loans to real estate developers. Credit approval authority is centralized to the loan review committee at our head office. In conducting credit review, we focus on the financial strengths of the real estate developers, the location and purpose of the real estate development projects, the status of the government approvals and permissions on the projects, and the adequacy of the initial funding provided by the developers. In principle, we only grant loans to the developers with solid ability to perform their obligations under the contracts.

We require all loans to real estate developers to be secured by land use rights on the projects to be developed and the projects to be financed. We determine the value of the collateral by taking into consideration the changes in market prices of the collateral. We closely monitor changes in the market value of the collateral and conduct regular revaluations. We demand additional security, such as equity pledges, third-party guarantees or other collateral, in case of a decline in the collateral's value.

We generally require loans to be promptly repaid in proportion to the proceeds from sales of the real estate and repayment in full before 70% of the real estate project is sold. In addition, pursuant to CBRC's requirements, we conduct stress tests on real estate loans at least on a quarterly basis.

As of June 30, 2015, our loans to the real estate industry were RMB3,222 million, accounting for 6.3% of the outstanding balance of our corporate loans. None of our loans to real estate developers were classified as non-performing.

Credit Risk Management for Loans to Industries with Overcapacity

The State Council, CBRC and the Shandong local government have promulgated policies to restrict loans to industries with severe overcapacity, such as coal mining, steel, cement, plate glass, vessels production, petroleum refinery, tire and electrified aluminum. In accordance with these policies and the list of overcapacity industries that are regularly published by the relevant government authorities, we seek to continue to reduce our risk exposure to such industries and prohibit all forms of new credit extensions to the entities or projects not in compliance with China's national industrial policies or our customer onboarding criteria. We have also tightened post-loan credit risk management on existing loans to borrowers in the industries with overcapacity. We closely monitor each borrower and demand repayment when loans are due or advanced repayment in accordance with our loan agreements should there be a breach of any covenants or undertakings by the borrower.

Credit Risk Management for Personal Loans

Leveraging on our experience and local knowledge of the Shandong markets, we have implemented clear strategies with respect to our credit risk management for personal loans. We seek to control credit risk of our personal loan business through three lines of defense.

The first line of defense is to identify target customer groups. For instance, for personal business loans, we have sought to onboard customers who are in the industries of which we have deep understanding, or are closely related to the welfare of the general public, or less cyclical. We seek to identify customer groups with lower risks and high quality through robust planning. Leveraging on our understanding and investigation on different industries, including on their operational models and risk exposure, we seek to reduce and minimize risks by taking reasonable and effective measures.

The second line of defense is to develop standardized personal loan products. After identifying target customer groups, based on our analysis of their operational models and our big data analysis, our head office formulates standardized customer onboarding criteria, product requirements and standard operation procedures for personal loan products to guide our branches and sub-branches to identify, and market our personal loan products to, target customers who meet the requirements. We have also streamlined our business processes, and sought to offer standardized personal loan products only to qualified customers identified through our automatic risk appraisal system, to enhance operational efficiency and prevent operational risks.

The third line of defense is to control risk through our designated "chief credit reviewers". Since 2014, we have appointed "chief credit reviewers" responsible for compliance review of our personal loans business. They issue preliminary review opinions to form the basis for decision-making by the authorized credit approvers. The chief credit reviewers are not members of the marketing team but are risk management personnel supervised by our head office. The chief credit reviewers are required to be familiar with and be in strict compliance with applicable financial rules and regulations as well as our policies and procedures, and have deep understanding of their duties and responsibilities as well as credit risk management techniques. They are also required to have university-level or above education background and five or more years of credit work experience. They can be appointed as chief credit reviewers only after they have passed the relevant exams and review and obtained the requisite qualification. The chief credit reviewers are generally appointed to our branches or sub-branches, as members of the credit management departments of the respective branches or being the sub-branch manager or deputy manager responsible for personal loan business or the retail banking head of the sub-branch. We believe that review by these chief credit reviewers is an effective initiative to strengthen our credit risk management for personal loans.

Our credit risk management procedures for personal loan business include pre-loan investigation, credit review and approval, loan disbursement and post-disbursement management.

Customer Applications and Pre-loan Investigation

Our retail borrowers are required to complete a loan application and provide the relevant information as requested, such as sources of income, employment status, bank accounts, use of the loan proceeds and credit records. Our retail customer managers verify the information in the loan application through examining supporting documents and interviewing the applicants. For personal loans secured by collateral, an appraisal by a designated appraiser is required, and appraisal results are reviewed by the credit reviewers.

Credit Review and Approval

We have established an internal credit rating system for retail customers using score cards to assess the borrower's creditworthiness. We have developed different score cards for general retail customers and private business owners. Our score cards incorporate both quantitative and qualitative indicators, including, among others, the borrower's age, income, marital status, employment status, family assets and credit records for general retail customers and, additionally, net assets, annual sales, return on net assets, industry and market prospects, legal proceedings, regulatory compliance status and other indicators of the business owned for private business owners. Based on our score card results, we assign a corresponding rating (AAA, AA, A, BBB, BB or B) to a retail customer.

Personal loan applications that have passed the compliance review by our chief credit reviewers are generally approved by the heads of the originating branches or sub-branches within their respective authorization limits. Personal loan applications exceeding the authorization limits of the branches or sub-branches are submitted to the personal loan department of our head office. These loan applications are reviewed by the designated credit approval officers at our head office and approved by the head of the personal loan department in accordance with his authorization limits. Loan applications exceeding his authorization limits are passed on to the responsible Vice President of our head office or the loan review committee of our head office for review and approval.

Loan Disbursement and Post-disbursement Management

The disbursement procedures for personal loans are similar to those applicable to corporate loans. Loans can be disbursed only upon the satisfaction of all conditions precedent.

The retail banking department at the loan originating sub-branch or branch is responsible for post-loan management. Our retail customer managers conduct inspections regularly and maintain communications with borrowers. We monitor loan repayment schedules and focus on material changes in the borrower's income and expenses. For overdue personal loans, we look into the reasons and assess default risk. If we are of the view that the default risk is significant, we suspend further drawdowns of the loan or require additional collateral.

Our personal loans are classified into five categories, namely normal, special mention, substandard, doubtful and loss, automatically through our credit management system and adjusted on a quarterly basis.

Credit Risk Management for Our Financial Market Business

Credit risk arising from our financial market business comes primarily from our interbank placements, investments in non-standard credit assets, and investments in bonds issued by financial institutions and corporates and other types of securities. We control the credit risk of our financial market business primarily through managing credit ratings and credit lines for issuers of fixed income products, post-investment management and risk appraisal. We assign an aggregate credit limit for all the financial institutions and bond issuers. The loan review committee approves credit lines to other banks and financial institutions, and makes adjustments in response to changes in risk profiles of those entities. Our head office grants limited authorization to our financial market business department and the Vice Presidents in charge of this business. Before we invest in securities or other financial assets, we conduct due diligence on the issuers of such securities or other financial assets; upon review and approval by our loan review committee, the issuers are whitelisted. We invest in securities or other financial assets within the approved credit limits.

Risk Management for Our Investments in Non-standard Credit Assets

We consider ourselves ultimately responsible for the results of credit risk control of the asset quality of our investments in non-standard credit assets, regardless of whether we invest with funds at our disposal or funds raised from wealth management products offered to our customers, from a prudent risk control perspective. In order to minimize the risks, our credit risk management policies with respect to non-standard credit assets are overall consistent with those applicable to our corporate loans, including, among others, due diligence, risk assessment and post-investment risk management. See "—Credit Risk Management for Corporate Loans". We conduct due diligence on the ultimate borrowers and the projects financed by the non-standard credit assets and, upon review and approval by our loan review committee, our financial market business unit executes the investments. Our credit management department is responsible for post-investment monitoring and management. Therefore, our pre-investment investigation, review of investment and post-investment monitoring of non-standard credit assets are conducted by different departments.

Compared to corporate loans, we have also taken certain additional measures to manage the risks related to our non-standard credit assets, based on the nature of these assets, as follows:

Due Diligence. For our investments in trust fund plans with single beneficiaries, we conduct due diligence investigations on the ultimate borrowers and the guarantees and collateral they provide, and apply the same credit risk management policies and procedures for corporate loans to these non-standard credit assets. Our due diligence on the ultimate borrowers covers their corporate governance structure, operational condition, industry risks, project profiles, financial indicators, collateral and other risk mitigation measures as well as their financing plans and the regulatory compliance of their use of proceeds. For other non-standard credit assets, we conduct due diligence investigations on the respective trust companies, securities companies and other financial institutions that we enter into transactions with. Generally, we assess the creditworthiness and qualifications of the trust companies and securities companies based on comprehensive evaluations on their rankings, transaction volume, risk control measures and risk appetite.

Additional Controlling Measures. Investments in non-standard credit assets generally involve a variety of transaction documents and numerous parties, based on the nature and transaction structure of such investments. Instead of using standard templates for transaction documents, our legal and compliance department reviews each transaction document on a case-by-case basis before we make each investment. In addition, we also ensure that security interest in the relevant collateral provided for the non-standard credit assets are perfected by the trust companies and securities companies to control the risks, even though such collateral is not provided to us directly. We conduct regular post-investment on-site inspections on the financing parties of the non-standard credit assets, generally on a quarterly basis, to review their operational condition, financial condition, repayment records and intent, significant incidents, project progress and the condition of the collateral.

We classify our investments in trust fund plans with single beneficiaries under the same criteria applicable to corporate loans. As of June 30, 2015, all of our investments in these assets were classified as normal. From a prudent risk management perspective, we collectively assess our investments in non-standard credit assets for impairment. As of June 30, 2015, our allowance for impairment losses on non-standard credit assets amounted to RMB70 million.

In addition, in line with the Notice on the Regulation of the Investment and Operation of Wealth Management Business by Commercial Banks issued by CBRC on March 25, 2013, we have enhanced our internal control processes with respect to our wealth management products. Particularly, we have taken the following measures:

- We have clearly linked each wealth management product with its underlying investment asset by segregating the management, bookkeeping and accounts for each wealth management product. We have prepared separate financial statements including balance sheet, income statement and cash flow statement for each of our wealth management product. These measures allow us to clarify ownership rights to each wealth management product issued by us and provide adequate disclosure to the investors on the risks involved in investment in such product. These measures have also enabled us to achieve risk segregation and targeted management of different products, such as more accurate pricing and duration-matching for each wealth management product based on the risk and return profile of its underlying investment assets. In addition, we make filings for each wealth management product, including detailed information such as the corresponding underlying investment assets with China Bank Wealth Management Products Registration System managed by CBRC, and make timely updates, to ensure each of our wealth management products is adequately monitored and supervised by CBRC and in compliance with relevant regulatory requirements;
- We have been monitoring the amount of investment in non-standard credit assets and the outstanding balance of our wealth management products on a daily basis to ensure the funds raised from our wealth management products are invested in the types of products which comply with applicable regulatory requirements and to keep the balance of our investments in non-standard credit assets below the regulatory limits. See "Supervision and Regulation—Regulations on Principal Commercial Banking Activities—Wealth Management"; and
- We have enhanced our information disclosure to include, (i) in the offering documents of our wealth management products, the information including, among others, our risk control measures with respect to non-standard credit assets, the underlying investment portfolio and the rules on distribution of the returns when due; and (ii) in the redemption announcements for our wealth management products, the information including, among others, the reference and actual annualized return rates, the underlying investment portfolio and the market value.

Our Directors believe that the above measures, implemented pursuant to the applicable regulatory requirements, have been effective in strengthening our risk management with respect to our wealth management business; since January 1, 2012 and up to the Latest Practicable Date, the wealth management products we issued were approved by or filed with the relevant regulatory authorities pursuant to the requirements under the applicable PRC laws and regulations; and our issuances of and investments in wealth management products were in compliance with the applicable PRC laws and regulations in all material aspects.

Our PRC legal advisor, King & Wood Mallesons, confirms that, since January 1, 2012 and up to the Latest Practicable Date, the wealth management products we issued were approved by or filed with the relevant regulatory authorities pursuant to the requirements under the applicable PRC laws and regulations; our issuances of and investments in wealth management products were in compliance with the applicable PRC laws and regulations in all material aspects; and no administrative penalties imposed against us by the regulatory authorities for any violations of applicable PRC laws and regulations were identified.

Information Technology Systems for Credit Risk Management

We are committed to improving our risk management with advanced information technology systems. We upgraded our entire credit risk management system in 2011. The new credit risk management system provides platforms and tools for advanced credit risk management techniques through integrating procedures, information and models, covering all businesses exposed to credit risk, including corporate, retail and interbank credit extensions as well as all of our branches and sub-branches. The new credit risk management system has become an integrated platform for our credit risk management. The system manages all procedures in the entire cycle of all loans, setting steps for pre-loan investigation, credit review and approval, loan disbursement and post-disbursement management. The system allocates tasks to each relevant personnel in a timely manner and generates reminders. The system equips us with automated and intellectualized risk control capabilities, including in controlling customer risk and managing exposure limits, loan disbursements and operational processes. The system also automatically generates risk alerts based on financial data analysis and helps us manage our exposure to specific industries and customers. The system has various other functions, including statistical analysis and compilation of a variety of reports and statements.

In order to meet our evolving credit risk management requirements, we seek to continue to improve the functionality of our existing information technology systems and develop new systems.

MARKET RISK MANAGEMENT

Market risk is the risk of loss in on- and off-balance sheet positions arising from movements in market prices. We are exposed to market risk primarily through our banking portfolio and trading portfolio. The primary market risks associated with our banking portfolio are interest rate risk and exchange rate risk. The primary market risk associated with our trading portfolio is the fluctuation of market value of our trading positions, which are affected by movements in observable market variables such as interest rates and exchange rates. The principal objective of our market risk management is to keep potential market losses within acceptable limits based on our risk appetite while we seek to maximize risk adjusted returns.

Our organizational structure for market risk management covers the front, middle and back offices. Our Board of Directors is ultimately responsible for supervising our market risk management. Our senior management is responsible for the implementation of market risk management strategies and policies approved by our Board of Directors. Under our senior management, the asset and liability management committee is responsible for managing market risk arising from our banking book, while the risk management committee is responsible for managing market risk arising from our trading book. Our primary departments for market risk management include the financial planning department and the financial market business unit.

Our market risk management practices consist of the identification, measuring, monitoring and control of market risk. In measuring and monitoring market risk, we primarily employ sensitivity analysis, foreign currency exposure analysis, gap analysis, scenario analysis, duration analysis, stress testing and value-at-risk analysis. We also set authorized risk limits for various products based on factors such as our overall market risk tolerance level and business strategy as well as market conditions for specific products. We set different exposure limits and employ different quantitative measures to manage different types of market risk arising from our banking book and trading book.

Market Risk Management for Our Banking Book

Interest Rate Risk Management

Interest rate risk is the exposure of a bank's financial condition to adverse movements in interest rates. The primary source of interest rate risk arising from our banking book is the mismatch in maturity dates or repricing dates of our interest rate-sensitive on- and off-balance sheet assets and liabilities. Maturity or repricing date mismatches may result in changes in net interest income and economic value due to fluctuations of the prevailing interest rates. We are exposed to interest rate risk through our day-to-day lending and deposit-taking activities and our financial market business.

We use repricing gap analysis, duration gap analysis, interest rate sensitivity analysis, stress testing and scenario analysis to measure our exposure to potential interest rate changes. We manage the interest rate risk exposure of our banking book primarily through exposure limits and adjustments to the mix of our assets and liabilities.

Exchange Rate Risk Management

Exchange rate risk arises primarily from mismatches in the currency denomination of our on- and off-balance sheet assets and liabilities and mismatches in the currency positions of our foreign currency transactions. We seek to manage the exchange rate risk resulting from mismatches in our assets and liabilities by matching the sources and uses of our funds. We seek to keep the adverse impact of exchange rate fluctuations within an acceptable range by setting exposure limits on agency business and adjusting the currency mix of our assets and liabilities.

Market Risk Management for the Trading Book

Market risk arising from our trading book comes primarily from fluctuations in the value of the financial instruments on our trading book due to changes in interest rates and exchange rates. Based on our overall market risk management policies and risk appetite, we employ a number of risk management techniques, including exposure limits, stop-loss limits and value-at-risk analysis, to monitor on a daily basis and control market risk arising from our trading book. We have introduced *Opics Risk Plus*, a market risk management system, to improve our market risk measurement capability. We conduct sensitivity tests and stress tests on a quarterly basis for our trading book.

LIQUIDITY RISK MANAGEMENT

Liquidity risk refers to the risk of failure to liquidate a position in a timely manner to acquire sufficient funds or failing to acquire sufficient funds at a reasonable cost to fulfill payment obligations. Factors affecting our liquidity include the maturity structure of our assets and liabilities and changes of PBoC's monetary policies, such as changes in the statutory deposit reserve ratio. We are exposed to liquidity risk primarily in the funding of our lending, trading and investment activities, as well as in the management of our liquidity positions. The primary objective of our liquidity risk management is to ensure that we have sufficient funds at all times to meet our payment obligations and fund our business operations on a timely basis.

Our organizational structure for liquidity risk management is formed on the basis of the separation of the responsibilities for the formulation, implementation and supervision of liquidity risk management policies and procedures. Our Board of Directors is ultimately responsible for our liquidity risk management. Our senior management and the relevant departments, including the financial planning department and the financial market business unit, as well as the asset and liability management committee are responsible for liquidity risk management on a day-to-day basis. The asset and liability management committee at our senior management level is responsible for establishing policies and strategies relating to our overall management of liquidity risk. The Risk Management Committee under our Board of Directors is responsible for the review and approval of liquidity risk management policies and strategies formulated by the senior management. Our Board of Supervisors is responsible for supervising and evaluating our Board of Directors and senior management on liquidity risk management.

We manage liquidity risk primarily through monitoring the maturities of our assets and liabilities to ensure that we have sufficient funds to meet obligations as they become due. Upon the release by CBRC of the Notice on Further Strengthening the Supervision of Liquidity Risk of Commercial Banks (《關於進一步加強商業銀行流動性風險監管的通知》), and the Rules Governing Liquidity Risk Management of Commercial Banks (Trial) (《商業銀行流動性風險管理辦法(試行)》), effective March 1, 2014, we have increased our efforts to improve liquidity risk management. We have implemented the heightened regulatory requirements through closely monitoring multiple liquidity indicators, formulating contingency plans and strengthening liquidity risk assessment and stress tests. We have been focusing on the following measures:

- centralized cash flow management and position limit management;
- pre-warning of large fund flows;
- monitoring of liquidity risk through a number of key indicators, including loan to deposit ratio, liquidity ratio, surplus deposit reserve ratio, and ratio of assets with high liquidity;
- use of funds transfer pricing to guide our business and adjust the maturity profiles of our assets and liabilities;
- diversification of our asset portfolio and sources of funds, including through expanding interbank deposit business, certificates of deposit, asset-backed securities and other new funding sources;
- conducting periodical cash flow analysis and liquidity stress tests to identify potential liquidity risk and develop risk mitigation measures;
- formulating a liquidity risk emergency plan to ensure sufficient liquidity under various market conditions; and
- conducting liquidity risk assessment before launching new products or business lines.

OPERATIONAL RISK MANAGEMENT

Operational risk refers to the risk arising from inadequate or failed internal control procedures, personnel and information technology systems, or external events. The primary operational risks we face include internal and external frauds, worksite safety failures, business interruptions and failure in the information technology system.

Our Board of Directors is ultimately responsible for our operational risk management. Our senior management leads the bank-wide operational risk management on a day-to-day basis. We have established "three lines of defenses" to manage operational risk on an end-to-end basis. The three lines maintain close coordination and communication with each other while focusing on their designated responsibilities. Our business lines and functions are the first line of defense against operational risks, taking direct responsibilities for operational risk management. The legal and compliance department at our head office is the second line of defense against operational risks, responsible for the establishment of our operational risk management policies and procedures and the coordination, support, and supervision of our operational risk management. Our audit department is the third line of defense against operational risks, responsible for evaluating the adequacy and effectiveness of our operational risk management policies and procedures and assessing our internal control system and compliance.

We have formulated a number of operational risk management policies and procedures, aiming to effectively identify, assess, monitor, control and report our operational risk and minimize any losses arising from our operational risk exposure. Furthermore, we have established a bottom-up reporting system for operational risk. Operational risk management reports are submitted to our Board of Directors and the Risk Management Committee under the Board of Directors on a semi-annual basis, while material operational risk incidents are required to be reported immediately by the respective branches and sub-branches, business lines and functions.

We seek to further improve our operational risk management through the following measures:

- strictly separating responsibilities of the front, middle and back offices and improving business processes and risk management procedures;
- regularly reviewing risk alerts and updating operational guidelines covering all departments and functions;
- conducting periodical and *ad hoc* inspections, including inspections on branches and sub-branches by a joint inspection team consisting of management personnel from various business lines and functions of our head office;
- adopting advanced risk management tools, such as operational risk control self-assessment (RCSA), to supervise and evaluate the adequacy and effectiveness of our operational risk management;
- developing standard operation procedures before launching new products and business lines;
- improving staff compliance by continuous training, on-site audits and off-site monitoring;
- deploying technology, including through upgrading information system and automation, to improve information security;
- establishing contingency plans and launching business continuity programs; and
- tightening our third line of defense against operational risks by continuous strengthening of our internal audit procedures.

Information Technology Risk Management

Information technology risk refers to the operational, reputational, legal and other risks caused by natural factors, human factors, technical loopholes and flawed management in the course of our use of information technology. The objectives of our information technology risk management are to identify, monitor, assess and control information technology risks by building up an effective information technology risk management infrastructure. We seek to operate our business in a safe and sound information technology environment and promote business innovation supported by advanced information technology.

We have established a tiered information technology risk management framework under the leadership of our Board of Directors and senior management based on the three lines of defense, namely, business, risk management and audit. The Information Technology Committee under our Board of Directors is responsible for supervising our overall information technology risk management. The information technology management committee under our senior management is responsible for the management of information and technology risk to ensure the stable and reliable operation of our information technology systems supporting our business. Our information technology department is in charge of the implementation of information technology risk management policies and procedures.

We have sought to build up an effective information technology risk management system consisting primarily of project management, business continuity management and information security under an effective, flexible and secure infrastructure and application framework.

Project Management

We have formulated, and are closely monitoring the implementation of, project management procedures covering project preparation, project commencement, analysis of demands, code development, technology testing, operation testing, preparatory work for launching, third party evaluation and test runs.

Business Continuity Management

We have established an application back-up center in Qingdao and a data recovery center in another city. We continue to integrate and improve the infrastructure of data centers through virtualization and cloud computing technology. We have also developed comprehensive disaster recovery solutions and perform drills periodically.

Information Security Management

To ensure the security of our customer information, we have engaged professional personnel to oversee our information security and established an information security management platform to prevent hacking activities, conduct audits on our operations and perform data masking. We have obtained the ISO27001 certification on our information security management system for three consecutive years.

When developing our risk management system, we have conducted in-depth research and accomplished innovations in information technology risk management. Our risk management research results have won awards granted by CBRC for three consecutive years. Our research "Best Practice of Banking Services Structure — The Planning and Implementation of SOA-based IT application structure of City Commercial Banks" (構建面向銀行服務體系架構的最佳實踐 — 城市商業銀行基於SOA的信息技術應用架構的規劃和實現) won a third class research award granted by CBRC in information technology risk management in 2012. "The Research on Independent Operation and Services of Medium and Small Banks" (中小銀行自主靈活的業務服務模型研究) won a second class research award granted by CBRC in information technology risk management in 2013. "Collaboration Platform for Operation and Services" (基於業務服務模型的實踐之多渠道協作平台) and "Research and Implementation of Visualization and Intellectualization of Business Continuity Management of Medium and Small Banks" (中小銀行業務連續性管理可視化、智能化的研究與實踐) won the third and fourth class research awards, respectively, granted by CBRC in information technology risk management in 2014.

REPUTATIONAL RISK MANAGEMENT

Reputational risk refers to the risk of negative publicity or comments about our business, operations, management, human resources and other activities or external events. The objectives of our reputational risk management are to identify, monitor, manage and minimize reputational risk and to build and maintain our good corporate image and support our sustained development.

We have established a tiered organizational structure for reputational risk management. Our Board of Directors is responsible for managing reputation risk relating to our strategies. The Office of the Boards of Directors and Supervisors coordinates on the management of reputational risk arising from capital markets. The general office of our head office is responsible for monitoring press coverage and coordinating with each business line, function and branch on the identification, assessment, monitoring and prevention of reputational risk arising from their respective business and operations. The general office at our head office also organizes solutions to reputational risk incidents and coordinates recovery efforts.

We manage reputational risk primarily through the following measures:

- formulating response strategies, management tools and emergency management process upon reputational risk incidents;
- maintaining relationship with the press;
- conducting regular reviews of potential reputational risk;
- improving customer services and complaint management, as well as the quality of our services;
- protecting our IP rights from third-party infringement; and
- regular training of our front office staff and other relevant personnel.

LEGAL AND COMPLIANCE RISK MANAGEMENT

Compliance risk refers to the risk of being subject to legal sanctions, regulatory penalties and significant financial and reputational losses as a result of failure to comply with applicable laws, regulations, rules and relevant industry standards. Legal risk refers to the risk of legal liability arising from violation of laws and regulations, breach of contracts, infringement on legal rights of others or otherwise in connection with any contract or business activity in which we are involved.

The legal and compliance department at our head office is responsible for our overall legal and compliance risk management. The legal and compliance department centrally manages the preparation and review of contracts and other legal documents, our legal proceedings and loan collection claims raised through legal proceedings. It monitors legal and regulatory developments and provides advice and support to our business and operations, such as through review of new business initiatives and development of control frameworks and processes. It also organizes internal training on legal and compliance matters and distributes compliance alerts and reminders to our staff to raise their awareness on legal and compliance risks. The legal and compliance department conducts regular compliance testing to identify and assess compliance risks arising from our business and operations and reports significant legal and compliance risk exposure to our senior management on a timely basis.

To strengthen our legal and compliance risk management, we have rolled out a number of updated policies and procedures, covering legal document review procedures and requirements, external counsel management, litigation management and internal authorization controls.

Anti-money Laundering

We have established a bank-wide organizational structure for anti-money laundering and developed policies and procedures in accordance with the PRC Anti-Money Laundering Law and other applicable rules and regulations promulgated by PBoC. Our Board of Directors is ultimately responsible for anti-money laundering risk management. Our senior management leads the bank-wide implementation of our anti-money laundering policies and procedures. Our legal and compliance department is responsible for formulating anti-money laundering policies and procedures, coordinating on the implementation of these policies and procedures with various business lines, functions, branches and sub-branches, and monitoring of our compliance with anti-money laundering laws and regulations. Our head office, branches and sub-branches have respective teams to execute anti-money laundering activities and operations on a day-to-day basis.

In accordance with the PRC Anti-Money Laundering Law and the relevant anti-money laundering regulations promulgated by PBoC, we have developed and implemented policies and procedures on customer due diligence and identification, sanction screening, transaction record keeping, suspected terrorism financing monitoring and large and suspicious transaction reporting. We seek to continue to improve our anti-money laundering capabilities through reinforcing the "know-your-customer" and customer risk assessment procedures, stepping up risk monitoring and alerting activities, as well as improving the functionality of our anti-money laundering information system.

INTERNAL AUDIT

We value the importance of internal audit, as it is essential to our stable operation and sustainable development. The objectives of our internal audit are to monitor the consistent implementation of applicable laws and regulations as well as our internal policies, procedures and standard operation procedures, control our risk exposure at an acceptable level, and improve our business operations.

We have established an independent and vertical internal audit organizational structure. Our internal audit department reports directly to the chairman of our Board of Directors. The Audit Committee under our Board of Directors is responsible for supervising the implementation of our internal audit policies. The audit department at our head office is responsible for our bank-wide internal audit work, under the supervision of our Board of Directors and Board of Supervisors. The designated internal audit personnel at our Ji'nan branch, which is our largest branch outside Qingdao, reports to the audit department of our head office.

Our audit department has adopted a risk-based approach to formulating annual audit plans and conducting routine, *ad hoc* and project-based audits. Our audit department also organizes audits on branches and sub-branches upon the compulsory leave of branch and sub-branch personnel, whose responsibilities are performed, during the audit, by the replacement personnel appointed by our head office, to detect risks and control lapses. We use internal audit findings to assess the effectiveness of our risk management, internal control and corporate governance, identify potential risks in our operation and improve our control environment.

CONNECTED TRANSACTIONS

Upon Listing, the transactions we have entered into with our connected persons (as defined in the Listing Rules) will constitute connected transactions for us under Chapter 14A of the Listing Rules. Such transactions will continue following the Listing Date, thereby constituting continuing connected transactions under the Listing Rules.

Exempt Continuing Connected Transactions

We are a commercial bank incorporated in the PRC and regulated by CBRC and PBoC. We provide commercial banking services and products in our ordinary and usual course of business to members of the public in the PRC, which include our connected persons (such as Directors, Supervisors, the President and/or their respective associates). Set forth below are details of connected transactions between us and our connected persons. These transactions are entered into on normal commercial terms (or commercial terms that are better to us) in the ordinary and usual course of our business, and thus are fully exempt from all disclosure, annual review and shareholders' approval requirements under Chapter 14A of the Listing Rules.

Commercial banking services and products provided in the ordinary and usual course of business — Loans and other credit facilities to connected persons

We extend loans and other credit facilities in the ordinary and usual course of our business to certain of our connected persons on normal commercial terms (or commercial terms that are better to us) with reference to prevailing market interest rates. We expect that we will continue to provide loans and other credit facilities to our connected persons following the Listing, which will constitute continuing connected transactions for us under Chapter 14A of the Listing Rules.

The above loans and other credit facilities provided by us to our connected persons are in the ordinary and usual course of our business and on normal commercial terms (or commercial terms that are better to us) with reference to prevailing market interest rates. Therefore, these transactions will be fully exempt continuing connected transactions under Rule 14A.87(1) of the Listing Rules, namely financial assistance provided by us in our ordinary and usual course of business to a connected person on normal commercial terms (or commercial terms that are better to us), and thus will be fully exempt from all disclosure, annual review and shareholders' approval requirements under Chapter 14A of the Listing Rules.

Commercial banking services and products provided in the ordinary and usual course of business — Deposit taking

We take deposits in the ordinary and usual course of our business from certain of our connected persons at normal interest rates and on normal commercial terms (or commercial terms that are better to us). We expect that our connected persons will continue to place deposits with us following the Listing, which will constitute continuing connected transactions for us under Chapter 14A of the Listing Rules.

The deposits placed by our connected persons are on normal commercial terms (or commercial terms that are better to us) with reference to prevailing market interest rates. Therefore, these transactions will be fully exempt continuing connected transactions under Rule 14A.90 of the Listing Rules, namely financial assistance received by us, as the listed issuer, from a connected person in the form of deposits on normal commercial terms (or commercial terms that are better to us) and not secured by our assets, and thus will be fully exempt from all disclosure, annual review and shareholders' approval requirements under Chapter 14A of the Listing Rules.

Commercial banking services and products provided in the ordinary and usual course of business — Other banking services and products

We provide various commercial banking services and products (including credit/debit cards and wealth management products) to certain of our connected persons at normal fee standards, service fees and charges in the ordinary and usual course of our business and on normal commercial terms and conditions (or commercial terms that are better to us). We expect that we will continue to provide such banking services and products to our connected persons following the Listing, which will constitute continuing connected transactions for us under Chapter 14A of the Listing Rules.

These continuing connected transactions are the provision of other banking services and products to our connected persons and/or their respective associates in the ordinary and usual course of business and on normal commercial terms that are comparable or no more favorable than those offered to independent third parties and are expected to constitute the *de minimis* transactions under Chapter 14A of the Listing Rules. As a result, these transactions will constitute fully exempt continuing connected transactions pursuant to Rule 14A.76(1) of the Listing Rules, and thus will be fully exempt from all disclosure, annual review and shareholders' approval requirements under Chapter 14A of the Listing Rules.

DIRECTORS

Our Board consists of 12 Directors, including three Executive Directors, five Non-executive Directors and four Independent Non-executive Directors. Pursuant to our Articles of Association, the term of office of a Director shall be three years per term, and a Director may be re-elected and re-appointed upon the expiry of his/her term of office, provided that the cumulative term of an Independent Non-executive Director shall not exceed six years. The term of office of the fifth session of our Board expired in April 2015, and the members of the sixth (current) session of the Board were elected at the 2014 shareholders' general meeting convened in April 2015. The following table sets forth certain information regarding our Directors.

Name	Age	Time of Joining Our Bank	Date of Appointment as a Director	Position	Responsibility
Mr. GUO Shaoquan (郭少泉)	53	November 2009	January 6, 2010	Chairman, Executive Director	Responsible for our overall operations and strategies
Mr. WANG Lin (王麟)	52	July 2011	September 16, 2011	Executive Director	Responsible for our overall business and management
Mr. YANG Fengjiang (楊峰江)	51	July 2003	April 10, 2012	Executive Director	Responsible for our financial management, risk management, and financial market and liquidity management
Mr. ZHOU Yunjie (周雲傑)	48	April 2015	April 10, 2015	Non-executive Director	Responsible for participating in the making of major business decisions, including the development of our strategies and business management and performing his duties as our Director through the Board, and the Nomination Committee, the Remuneration Committee and the Strategy Committee under the Board
Mr. Rosario STRANO	52	April 2012	April 10, 2012	Non-executive Director	Responsible for participating in the making of major business decisions, including the development of our strategies and business management and performing his duties as our Director through the Board, and the Remuneration Committee and the Strategy Committee under the Board
Mr. WANG Jianhui (王建輝)	52	March 2007	March 30, 2007	Non-executive Director	Responsible for participating in the making of major business decisions, including the development of our strategies and business management and performing his duties as our Director through the Board, and the Audit Committee and the Strategy Committee under the Board

Name	Age	Time of Joining Our Bank	Date of Appointment as a Director	Position	Responsibility
Ms. TAN Lixia (譚麗霞)	45	August 2007	April 10, 2012	Non-executive Director	Responsible for participating in the making of major business decisions, including the development of our strategies and business management and performing her duties as our Director through the Board, and the Audit Committee, the Risk Management Committee and the Information Technology Committee under the Board
Mr. Marco MUSSITA	56	September 2011	September 16, 2011	Non-executive Director	Responsible for participating in the making of major business decisions, including the development of our strategies and business management and performing his duties as our Director through the Board, and the Information Technology Committee and the Risk Management Committee under the Board
Mr. WANG Zhuquan (王竹泉)	50	April 2012	April 10, 2012	Independent Non-executive Director	Responsible for participating in the making of major business decisions, including the development of our strategies and business management, advising on issues relating to our Related Party Transactions and connected transactions, audit, and remuneration of the Directors and the senior management independently, and performing his duties as our Director through the Board, and the Audit Committee, the Nomination Committee, the Remuneration Committee and the Related Party Transactions Control Committee under the Board
Mr. DU Wenhe (杜文和)	57	December 2013	December 6, 2013	Independent Non-executive Director	Responsible for participating in the making of major business decisions, including the development of our strategies and business management, advising on issues relating to our Related Party Transactions and connected transactions, audit, and remuneration of the Directors and the senior management independently, and performing his duties as our Director through the Board, and the Nomination Committee, the Remuneration Committee, the Related Party Transactions Control Committee and the Information Technology Committee under the Board

Name	Age	Time of Joining Our Bank	Date of Appointment as a Director	Position	Responsibility
Mr. WONG Tin Yau, Kelvin (黃天祐)	55	April 2015	April 10, 2015	Independent Non-executive Director	Responsible for participating in the making of major business decisions including the development of our strategies and business management, advising on issues relating to our Related Party Transactions and connected transactions, audit, and remuneration of the Directors and the senior management independently, and performing his duties as our Director through the Board, and the Audit Committee, the Nomination Committee, Remuneration Committee, the Strategy Committee and the Related Party Transactions Control Committee under the Board
Mr. CHEN Hua (陳華)	48	April 2015	April 10, 2015	Independent Non-executive Director	Responsible for participating in the making of major business decisions, including the development of our strategies and business management, advising on issues relating to our Related Party Transactions and connected transactions, audit, and remuneration of the Directors and the senior management independently, and performing his duties as our Director through the Board, and the Audit Committee, the Nomination Committee, the Remuneration Committee, the Strategy Committee, the Related Party Transactions Control Committee and the Risk Management Committee under the Board

Executive Directors

Mr. GUO Shaoquan (郭少泉), aged 53, was appointed as our Executive Director on January 6, 2010 and has been our Chairman since January 2010. He is primarily responsible for our overall operations and strategies.

Mr. Guo has approximately 35 years of experience in banking operations and management. He joined our Bank in November 2009 as secretary of the party committee. Prior to joining our Bank, Mr. Guo served as the head of the Tianjin branch of China Merchants Bank from July 2009 to November 2009, and he also served as the head of the Qingdao sub-branch and Qingdao branch of China Merchants Bank from April 2000 to December 2002 and from December 2002 to June 2009, respectively, responsible for overall operations and management. Prior to that, he worked at the Qingdao branch of China Construction Bank from December 1980 to April 2000, successively as deputy chief of appropriation sub-department II, deputy chief of investment sub-department II and deputy chief of the investment sub-department of the business department of the branch, chief of the investment department, assistant to the director and deputy director of the Shinan District office, deputy head and head of the Hi-tech Industrial Park sub-branch and deputy head of the Hi-tech Industrial Park branch. During his tenure with the Qingdao branch of China Construction Bank, he was primarily responsible for overseeing credit and appropriation management, overall operations and management of the sub-branch as well as the retail operations, accounting and administration of the branch.

Mr. Guo graduated from Nankai University in Tianjin, majoring in executive business administration and obtained an EMBA degree (Executive Master of Business Administration) in December 2004. He also graduated from Peking University, majoring in executive business administration, and obtained an EMBA degree in July 2013. Mr. Guo was awarded "2011-2012 National Excellent Entrepreneur" by China Enterprise Confederation in May 2012, "Working Model in Shandong" by People's Government of Shandong in April 2013, and "Qingdao Outstanding Talent" by Qingdao Party Committee and Qingdao Government in April 2013.

Mr. Guo has not been a director of any publicly listed companies during the three years preceding the date of this prospectus.

Mr. WANG Lin (王麟), aged 52, was appointed as our Executive Director on September 16, 2011 and has been our President since March 2012. He is primarily responsible for our overall business and management.

Mr. Wang has over 30 years of experience in banking operations and management. He joined our Bank in July 2011 as the deputy secretary of the party committee. Prior to joining our Bank, Mr. Wang served as the general manager of the pension finance department and supplementary pension management center of the head office of China Merchants Bank from February 2010 to August 2010 and from August 2010 to July 2011, respectively. He also served as the head and secretary of the party committee of the Ningbo branch of China Merchants Bank from July 2005 to February 2010, and general manager of the corporate banking department of the head office of China Merchants Bank from June 2002 to July 2005. He also worked at the Nanjing branch of China Merchants Bank from December 1996 to June 2002 as deputy head and head of Chengbei sub-branch, head of Hunan Road sub-branch and Chengxi sub-branch, assistant to the head and deputy head of the Nanjing branch. Prior to that, he worked with the Nanjing branch of Agricultural Bank of China from July 1984 to December 1996 as an accountant, staff member of the credit office, secretary of the office and senior staff member of Pukou sub-branch, assistant to the director and deputy director of the Chengbei office as well as deputy general manager of the international department of the Nanjing branch, where he was primarily responsible for the accounting, commercial and industrial credit business of the sub-branch and the office secretarial matters and business operation and management of the international department.

Mr. Wang graduated from Nanjing University of Finance & Economics (南京經濟學院) in Jiangsu Province, majoring in finance (continuing education), and obtained a bachelor's degree in management in December 2000. He also graduated from Peking University, majoring in executive business administration, and obtained an EMBA degree in July 2006.

Mr. Wang has not been a director of any publicly listed companies during the three years preceding the date of this prospectus.

Mr. YANG Fengjiang (楊峰江), aged 51, was appointed as our Executive Director on April 10, 2012 and has been our Vice President since June 2007. He is primarily responsible for financial management, risk management, and financial market and liquidity management.

Mr. Yang has over 25 years of experience in operations and management of banking and securities. He joined our Bank in July 2003 and served as an assistant to the President and general manager of our treasury operation department from January 2006 to June 2007, where he was primarily responsible for the financial market, bill business, credit approval and liquidity management. Mr. Yang was the general manager of our treasury operation department from July 2003 to January 2006, where he was responsible for the supervision of the source, application and overall guidance on allocation of the funding and management of debt maturities. Prior to joining our Bank, he served as the general manager of the investment banking department and bond department of Qingdao Wantong Securities Co., Ltd. (青島萬通證券有限責任公司) (now known as CITIC Securities (Shandong) Co., Ltd. (中信證券（山東）有限責任公司)) from April 1999 to July 2003, where he was primarily responsible for sponsoring enterprises for listing, corporate restructuring, mergers and acquisitions, financial advisory, equity underwriting, underwriting of corporate bonds and corporate debts and arbitrage. Mr. Yang served successively as a member of the preparation group, deputy manager and general manager of the business development department of the Qingdao Securities Trading Center (青島證券交易中心) from May 1993 to April 1999, where he was primarily responsible for member development, member trading services, liaising with the Shanghai Stock Exchange and Shenzhen Stock Exchange and approving listed securities trading at the exchange. He also served as a senior staff member of the Qingdao branch of the People's Bank of China from November 1989 to May 1993, where he was primarily responsible for the preparation, monitoring and analysis of the integrated bank credit schemes in Qingdao, the review of the refinancing and rediscounting as well as monitoring and analyzing the currency circulation in Qingdao.

Mr. Yang graduated from Shaanxi Financial College (陝西財經學院), majoring in finance, and obtained a bachelor's degree in economics in July 1985.

Mr. Yang has not been a director of any publicly listed companies during the three years preceding the date of this prospectus.

Non-executive Directors

Mr. ZHOU Yunjie (周雲傑), aged 48, was appointed as our Non-executive Director on April 10, 2015. He has been serving as an executive director and general manager of Haier Electronics Group Co., Ltd. (a company listed on the Hong Kong Stock Exchange, stock code: 1169) since November 2009. He was appointed as chief executive officer and chairman of the board of the abovementioned company in March 2013 and June 2013, respectively. He has been an alternative president and deputy chairman of the board of Haier Group Corporation since May 2013, where he is responsible for the internal operation and management of Haier Group Corporation. Mr. Zhou served as the senior vice president, chief marketing officer and executive vice president of Haier Group Corporation from November 2007 to May 2013, where he was primarily responsible for the overall management of Haier Group Corporation, including marketing management. He served as probational vice president, vice president and head of the refrigeration product department and head of the promotion division and secretary of the party committee of Haier Group Corporation from August 1999 to November 2007, where he was successively responsible for the refrigeration business, marketing and overall management of Haier Group Corporation. Mr. Zhou has been the head and general manager of the quality department, head of the electrical department and secretary of the party committee of Qingdao Haier Refrigerator Co., Ltd. (now known as Qingdao Haier Co., Ltd., which is a company listed on the Shanghai Stock Exchange, stock code: 600690) from August 1994 to August 1999. He has been the assistant to the chief, deputy chief and chief of the sales division of Qingdao Refrigerator Factory (now known as Qingdao Haier Co., Ltd.) and the vice director and director of the second factory of Qingdao Refrigerator Co., Ltd. (青島電冰箱股份有限公司) (now known as Qingdao Haier Co., Ltd.) from October 1989 to August 1994.

Mr. Zhou graduated from Huazhong Polytechnic University (華中理工大學) (now known as Huazhong University of Science and Technology) in Hubei Province, majoring in welding engineering and obtained a bachelor's degree in engineering in July 1988. He graduated from Ocean University of China in Shandong, majoring in corporate management, and obtained a master's degree in corporate management in June 1999. He also graduated from Xi'an Jiaotong University in Shaanxi, majoring in business administration, and obtained a doctorate degree in business administration in January 2006.

Save as disclosed above, Mr. Zhou has not been a director of any publicly listed companies during the three years preceding the date of this prospectus.

Mr. Rosario STRANO, aged 52, was appointed as our Non-executive Director on April 10, 2012. He has been serving as the chief human resources officer of ISP since August 1, 2015, where he is responsible for the formulation of policies and guidelines for human resources, planning of labor costs and monitoring its trend, and defining remuneration and incentive schemes of the group. He has also been an non-executive director of Intesa Sanpaolo Bank-Albania since March 2011. He served as the head of resources and corporate governance department at the international subsidiary banks division of Intesa Sanpaolo, a role which he held from May 2010 to July 2015, where he was primarily responsible for human resources, training and corporate governance of all the banks under the division. He was a vice president of Crédit Agricole Cariparma from January 2010 to May 2010 and was responsible for human resources, organizational management, information technology, operation services and the real estate business. Prior to that, he held the positions of the head of human resources and organization department, human resources department and resources and corporate governance department at the international subsidiary banks division of ISP from January 2007 to January 2010, during which time, he also served as the supervisor of Privredna Banka Zagreb, and the director of KMB Bank since April 2009. He also served as the head of human resources and organization department of Italian and international subsidiary banks division of Banca Intesa (now known as ISP) from October 2002 to December 2006. Before that, Mr. Strano served as the head of external relations of the central south department of Poste Italiane from May 2000 to October 2002. From January 1989 to May 2000, Mr. Strano worked at Banca di Roma, Alitalia, Grand Hotel Baglioni and Agenzia Nazionale Stampa Associata successively.

Mr. Strano graduated *cum laude* with a degree in law in July 1988 from the University of Bari in Italy.

Mr. Strano has not been a director of any publicly listed companies during the three years preceding the date of this prospectus.

Mr. WANG Jianhui (王建輝), aged 52, was appointed as our Non-executive Director on March 30, 2007. He served successively as the general manager, director, vice chairman and deputy secretary of the party committee of Qingdao Conson Development (Group) Co., Ltd. (青島國信發展（集團）有限責任公司), which is engaged in the management of state-owned capital, since February 2008 and as the general manager and chairman since April 2013, where he is primarily responsible for the overall business and management and strategic planning of the group. Prior to that, he served as the general manager and director of Qingdao Conson from April 2006 to February 2008. He also served as deputy director of the State-owned Assets Supervision and Administration Commission of Qingdao Government from July 2004 to April 2006, primarily responsible for performance evaluation, and as deputy director of the National Asset Management Office of Qingdao from April 2001 to July 2004, primarily responsible for assets evaluation and inflation-proofing and appreciation. Mr. Wang was also head of the property rights and regulation division and chief of the assessment and management division of the State-owned Assets Administration of Qingdao (State-owned Assets Office) from July 1996 to April 2001, primarily responsible for the internal operation of both divisions, and successively as senior staff member, principal staff member and deputy division chief of the Finance Bureau of Qingdao from July 1984 to July 1996, primarily responsible for municipal budgeting and taxation.

Mr. Wang graduated from Qingdao Financial College (青島市財政學校), majoring in finance and taxation, in July 1984. Mr. Wang graduated from Tianjin University, majoring in business administration, in June 1998, and obtained a master's degree in business administration in September 1998. He obtained the qualification of senior economist accredited by the Senior Evaluation Committee of Economy Professional Titles in Shandong (山東省經濟專業職務高級評審委員會) in March 2007. Mr. Wang was awarded "Award for the Improvement of Living Standards in Shandong Province" (富民興魯勞動獎章) by the General Labor Union of Shandong Province (山東省總工會) in April 2010 and "Working Model in Shandong" by People's Government of Shandong in April 2013.

Mr. Wang has not been a director of any publicly listed companies during the three years preceding the date of this prospectus.

Ms. TAN Lixia (譚麗霞), aged 45, was appointed as our Non-executive Director on April 10, 2012. She has been serving as a non-executive director of Haier Electronics Group Co., Ltd. (a company listed on the Hong Kong Stock Exchange, stock code: 1169) since November 2013. Ms. Tan was also our Supervisor from August 2007 to April 2012. Ms. Tan joined Haier Group Corporation in August 1992 and had held several positions since then. Since June 2010, she has been the senior vice president and chief financial officer of Haier Group Corporation and deputy chairman of the board of directors of Qingdao Haier Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600690), where she is primarily responsible for the financial management, risk control, investment and financing and new financial operations of the group as well as overseeing the strategic operations, human resources, legal affairs, audit supervision and information-based procedure of the group. Ms. Tan served as the vice president, head of department of financial management and chief financial officer of Haier Group Corporation from June 2006 to May 2010 and the deputy head and head of department of overseas market development of Haier Group Corporation from April 1999 to June 2006.

Ms. Tan graduated from Central Institute of Finance and Banking (中央財政金融學院) (now known as Central University of Finance and Economics) in Beijing, majoring in agricultural finance and credit, and obtained a bachelor's degree in economics in June 1992. She graduated from China

Europe International Business School in Shanghai, majoring in business administration, and obtained a master's degree in business administration in September 2010. Ms. Tan became a senior internationally-certified internal control professional (CICP) certified by the Internal Control Association (ICI) in November 2013 and was designated as a Chartered Global Management Accountant (CGMA) by the Chartered Institute of Management Accountants in September 2013.

Save as disclosed above, Ms. Tan has not been a director of any publicly listed company during the three years preceding the date of this prospectus.

Mr. Marco MUSSITA, aged 56, was appointed as our Non-executive Director on September 16, 2011. He has been the general manager of Eurizon (Beijing) Business Consultation Co., Ltd. (歐利盛（北京）商務諮詢有限公司) and a director of Union Life Insurance Co., Ltd. since May 2008. He had been the general manager and director of Shanghai Zhongyi Business Consulting Co. Ltd (上海中意商務諮詢有限公司) from September 2003 to April 2008. Shanghai Zhongyi Business Consulting Co. Ltd is principally engaged in the consultation of foreign investments. Prior to that, he joined Banca Commerciale Italiana (now known as ISP) in April 1987, and successively served as an assistant to the chief representative of the Beijing office, assistant to the vice-president of the New York branch, manager of the credit department of the Hong Kong branch, vice general manager of the Shanghai branch and vice general manager of the Tokyo branch from May 1990 to August 2003. During that period, he was successively responsible for the banking business liaison of the Beijing office, corporate loan and financing of the New York branch, PRC corporate loans and businesses of Chinese financial institutions of the Hong Kong branch, corporate loans, trade financings, financial institutions business and the supervision of customer management and credit department of the Shanghai branch, as well as domestic and global account management, corporate loans, financial institutions business and structured financing products of the Tokyo Branch as well as supervising its business of security, interbank and foreign exchange transactions. From March 1984 to April 1987, Mr. Mussita worked respectively at SKYHO A.G. as a sales representative of the Beijing branch and Ing.L.Dolci S.p.A. as a sales manager of the China region.

Mr. Mussita graduated from Università Ca' Foscari Venezia (Ca' Foscari University of Venice) in Italy, majoring in oriental literature and language, and obtained a master's degree in oriental literature and language in March 1986.

Mr. Mussita has not been a director of any publicly listed company during the three years preceding the date of this prospectus.

Independent Non-executive Directors

Mr. WANG Zhuquan (王竹泉), aged 50, was appointed as our Independent Non-executive Director on April 10, 2012. He has been serving as an independent director of Yantai Changyu Pioneer Wine Company Limited (a company listed on the Shenzhen Stock Exchange, stock code: 000869 (A shares) and 200869 (B shares)) from September 2007 to May 2013 and since May 2014. Furthermore, he has been serving as the independent director of Qingdao Doublestar Co., Ltd. (青島雙星股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 000599) since December 2013, Qingdao TGOOD Electric Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 300001) since May 2009, Shandong Binzhou Bohai Piston Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600960) since April 2009. He held the position of a supervisor (from May 2010 to April 2013) and independent director (from April 2004 to May 2010) of Qingdao Kingking

Applied Chemistry Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002094). He also served as an independent director of Mesnac Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002073) from December 2006 to December 2009. Between October 2004 to June 2009, he was the independent director of Qingdao Jiante Biological Investment Co., Ltd. (青島健特生物投資股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 000416; the company was successively renamed as Qingdao Huaxin Industry Co., Ltd. and Minsheng Investment Management Co., Ltd.).

He has been a professor, vice dean of the school of management, controller of the master's education center in accounting, controller of the research center of operation capital management of Chinese enterprises and controller of Chinese mixed ownership and capital management research institute of Ocean University of China since April 2001, where he is primarily responsible for the teaching, research and the development of the accounting curriculum. Prior to that, Mr. Wang had been a tutor, lecturer, associate professor and professor of the Qingdao Institute of Architecture and Engineering (青島建築工程學院) (now known as Qingdao Technological University) from March 1985 to April 2001, primarily responsible for the teaching and research of accounting. He also worked at the Shandong Mining Co., Ltd. (山東魯中礦山公司) from August 1984 to February 1985, primarily responsible for electrical management.

Mr. Wang graduated from Beijing University of Iron and Steel Technology (北京鋼鐵學院) (now known as University of Science & Technology of Beijing), majoring in industrial automation, and obtained a bachelor's degree in engineering in July 1984. He graduated from the technology, economics and business administration track of Tianjin University with a master's degree in December 1993. Mr. Wang graduated from Zhongnan University of Economics and Law in Hubei Province, majoring in accounting, and obtained a doctorate degree in management in June 2002. He was designated as a professor of accounting by the Senior Evaluation Committee of Teachers of Higher Education in Shandong Province in November 2000 and obtained the Chinese Certified Public Accountant qualification from the examination committee of Chartered Public Accountants of the Ministry of Finance (財政部註冊會計師考試委員會) in December 1993. Mr. Wang was recognized as a "Leader in Accounting in the PRC" (全國會計領軍人才) by the Ministry of Finance of the People's Republic of China in December 2012 and a distinguished teacher in Shandong Province by the Education Department of Shandong Province in August 2012. He has been a recipient of special subsidies from the State Council since February 2009.

Save as disclosed above, Mr. Wang has not been a director of any publicly listed companies during the three years preceding the date of this prospectus.

Mr. DU Wenhe (杜文和), aged 57, was appointed as our Independent Non-executive Director on December 6, 2013. He has been the chairman of the board of supervisors of JIC Holding Co., Ltd. (建投控股有限責任公司) since February 2014. JIC Holding Co., Ltd. is mainly engaged in pension and health investments, real estate investments and development as well as asset management. He served as the head of the information technology center of China Jianyin Investment Ltd. from April 2011 to April 2013, primarily responsible for the overall management, including the development, operation and maintenance, of the corporate information system. He was the chairman, general manager and secretary of the party committee of Zhongtou Kexin Technology Co., Ltd. (中投科信科技股份有限公司) (now known as Jiantou Huake Investment Co., Ltd. (建投華科投資股份有限公司)), a company engaged in technology development, from August 2007 to April 2011. He was also the general manager of Jianyin technology development centre of China Jianyin Investment Ltd. from February 2005 to August 2007.

Prior to that, he served as the deputy division chief and division chief of the planning standard division of the electronic computation center, vice general manager of the information technology department and the deputy head of the Suzhou branch of China Construction Bank from August 1986 to February 2005, during which he was primarily responsible for the construction and planning of technology systems, formulating the standards of information systems, planning and the overall management of the systems as well as overseeing the risk management, credit approval and information technology of the branches. He worked with the Computer Software Center of Beijing from February 1983 to August 1986, primarily responsible for product development.

Mr. Du graduated from the second branch of the Beijing Institute of Technology (北京工業學院二分院) (now known as Beijing Union University), majoring in computer technology, and obtained a bachelor's degree in engineering in January 1983. He obtained the senior engineer qualification from China Construction Bank in December 1993 and was awarded the second prize for the new-generation of centralized trading systems by the Award Committee for Science and Technology of the Securities and Futures Industry in January 2008.

Mr. Du has not been a director of any publicly listed companies during the three years preceding the date of this prospectus.

Mr. WONG Tin Yau, Kelvin (黃天祐), aged 55, was appointed as our Independent Non-executive Director on April 10, 2015. Mr. Wong has been an independent non-executive director and chairman of the audit committee of the board of Xinjiang Goldwind Science & Technology Co., Ltd (a company listed on the Shenzhen Stock Exchange, stock code: 002202, and on the Hong Kong Stock Exchange, stock code: 2208), China ZhengTong Auto Services Holdings Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1728), I.T Limited (a company listed on the Hong Kong Stock Exchange, stock code: 0999) and an independent non-executive director and chairman of the nomination committee of CIG Yangtze Ports PLC (a company listed on the Hong Kong Stock Exchange, stock code: 8233) since June 2011, November 2010, August 2007 and September 2005, respectively.

Mr. Wong has been an executive director and a deputy managing general manager of COSCO Pacific Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1199), and he has been primarily responsible for its capital markets operations and investor relations since July 1996. COSCO Pacific Limited is primarily engaged in terminals and container leasing. He served as an assistant to the president of COSCO (H.K.) Group Limited from June 1996 to April 2005 and was primarily responsible for assisting the president in the areas of acquisitions, financings and financial affairs of the subsidiaries. COSCO (H.K.) Group Limited is primarily engaged in shipping and supplying services, expressways, information technology, industrials, freight services and property management. Before that, he was the general manager in enterprise development of Termbray Industries International (Holdings) Limited (a company listed on the Hong Kong Stock Exchange, stock code: 0093) from October 1994 to July 1996, which is primarily engaged in property investment and development, oilfield engineering and consultancy services. During that period, Mr. Wong was primarily responsible for strategic research, financing and investment. From June 1992 to December 1994, Mr. Wong was the senior manager in the corporate finance and affairs division of Yuen Sang Enterprises (Holdings) Limited (now known as Chuang's China Investments Limited) (a company listed on the Hong Kong Stock Exchange, stock code: 0298) which is primarily engaged in property development and sales, where he was primarily responsible for financing and investment. Prior to that, he worked as a research analyst for Credit Lyonnais Securities (Asia) Ltd. in France from May 1989 to

February 1991 and was primarily responsible for preparing research reports on Hong Kong listed companies and served as assistant manager in multinational/banks division of Credit Lyonnais Hong Kong (Finance) Limited from June 1988 to May 1989. Mr. Wong was the supervisor of the 4th division of the loan department of the Bank of Tokyo (Hong Kong office) from August 1987 to May 1988, and was a credit analyst of Wing Lung Bank from August 1985 to April 1987. He was primarily responsible for corporate customer development and maintenance during that period.

Mr. Wong obtained his professional diploma in banking from The Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) in November 1985, and obtained his professional qualification as an associate of the Chartered Institute of Bankers in December 1987. He obtained a Master of Business Administration degree from Andrews University in Michigan, USA in August 1992 and a Doctorate of Business Administration degree from The Hong Kong Polytechnic in December 2007. Mr. Wong was appointed as a Justice of the Peace by the Government of the Hong Kong Special Administrative Region in 2013.

Save as disclosed above, Mr. Wong has not been a director of any publicly listed companies during the three years preceding the date of this prospectus.

Mr. CHEN Hua (陳華), aged 48, was appointed as our Independent Non-executive Director on April 10, 2015. He has been the head of the finance research institute of Shandong University of Finance and Economics (山東財經大學) since August 2014, and was the head of the center of economics research of Shandong University of Finance and Economics from November 2011 to July 2014 and the head of the finance and taxation institute of Shandong Economic University (山東經濟學院) from March 2005 to October 2011. During Mr. Chen's tenure with the aforementioned universities, he was primarily responsible for the teaching and research for undergraduate and graduate students. Mr. Chen served as the deputy chief of the planning department of Qufu branch, chief of the international clearing department and public deposit department of the Jining branch, deputy head of the Wenshang sub-branch, manager of the asset and risk management department of the Jining branch of the Industrial and Commercial Bank of China from July 1989 to September 2002, during which he was primarily responsible for the planning and management of the planning department of the branches as well as the international settlement business, credit management, audit management, international business management and risk management of the branches.

Mr. Chen graduated from Southwestern University of Finance and Economics (西南財經大學) in Sichuan Province, majoring in statistics, and obtained a bachelor's degree in economics in July 1989. He graduated from Shandong University (山東大學), majoring in operational research and cybernetics, and obtained a master's degree in science in December 2001. He also graduated from Soochow University (蘇州大學) in Jiangsu Province, majoring in finance, and obtained a doctorate degree in economics in June 2005.

Mr. Chen has not been a director of any publicly listed companies during the three years preceding the date of this prospectus.

SUPERVISORS

The PRC Company Law requires a joint stock company to establish a board of supervisors that is responsible for supervising the performance of the board and senior management and our financial operations, internal control, and risk management. Our Board of Supervisors consists of seven Supervisors, including three Employee Supervisors, one Shareholder Supervisor and three External Supervisors. Pursuant to our Articles of Association, the term of office of a Supervisor shall be three years per term, and a Supervisor may be re-elected and re-appointed upon the expiry of his/her term of office, provided that the cumulative term of an External Supervisor shall not exceed six years. The term of office of the fifth session of our Board of Supervisors expired in April 2015 and the members of the sixth (current) session of the Board of Supervisors were elected at the 2014 shareholders' general meeting convened in April 2015. The following table sets forth certain information about our Supervisors.

Name	Age	Time of joining our Bank	Date of Appointment as a Supervisor	Position	Responsibility
Ms. ZOU Junqiu (鄒君秋)	59	September 1996	January 25, 2006	Employee Supervisor	In charge of the work of the Board of Supervisors, supervising the performance, financial activities, internal control and risk management of the Board and senior management, and performing her duties as our Supervisor through the Board of Supervisors, and the supervision committee and the nomination and evaluation committee under the Board of Supervisors
Mr. FAN Jianjun (范建軍)	61	April 2009	April 20, 2009	Shareholder Supervisor	Responsible for supervising the performance, financial activities, internal control and risk management of the Board and senior management, and performing his duties as our Supervisor through the Board of Supervisors and the supervision committee under the Board of Supervisors
Mr. SUN Jigang (孫繼剛)	46	December 1996	January 25, 2006	Employee Supervisor	Responsible for supervising the performance, financial activities, internal control and risk management of the Board and senior management, and performing his duties as our Supervisor through the Board of Supervisors and the nomination and evaluation committee under the Board of Supervisors

Name	Age	Time of joining our Bank	Date of Appointment as a Supervisor	Position	Responsibility
Mr. XU Wansheng (徐萬盛)	48	July 2003	January 23, 2007	Employee Supervisor	Responsible for supervising the performance, financial activities, internal control and risk management of the Board and senior management, and performing his duties as our Supervisor through the Board of Supervisors and the supervision committee under the Board of Supervisors
Mr. WANG Jianhua (王建華)	62	April 2015	April 10, 2015	External Supervisor	Responsible for supervising the performance, financial activities, internal control and risk management of the Board and senior management, and performing his duties as our Supervisor through the Board of Supervisors and the nomination and evaluation committee under the Board of Supervisors
Mr. FU Changxiang (付長祥)	44	April 2015	April 10, 2015	External Supervisor	Responsible for supervising the operational and financial activities, internal control and risk management of the Board and senior management, and performing his duties as our Supervisor through the Board of Supervisors, and the supervision committee and the nomination and evaluation committee under the Board of Supervisors
Mr. HU Yanjing (胡燕京)	56	April 2015	April 10, 2015	External Supervisor	Responsible for supervising the performance, financial activities, internal control and risk management of the Board and senior management, and performing his duties as our Supervisor through the Board of Supervisors, and the supervision committee and the nomination and evaluation committee under the Board of Supervisors

Ms. ZOU Junqiu (鄒君秋), aged 59, was appointed as our Supervisor and Chairlady of the Board of Supervisors on January 25, 2006, and is responsible for the overall work of the Board of Supervisors. Ms. Zou is currently an Employee Supervisor of our Bank.

Ms. Zou joined our Bank in September 1996 and served as our Vice President from September 1996 to January 2006, primarily responsible for our credit and international businesses. Prior to joining our Bank, she served successively as a clerk of the Shibei District office, clerk of integrated planning division, deputy chief and chief of fund planning division, and the chief of the finance management division of the Qingdao branch of the People's Bank of China from November 1976 to September 1996, during which she was primarily responsible for financial capital planning, capitals dispatching among all commercial banks as well as approval and management of various financial institutions in Qingdao.

Ms. Zou graduated from Shandong Radio and TV University, majoring in finance (specialty) in July 1986. She obtained the senior economist qualification accredited by the Qingdao Personnel Bureau (青島市人事局) in November 1997.

Ms. Zou has not been a director of any publicly listed companies during the three years preceding the date of this prospectus.

Mr. FAN Jianjun (范建軍), aged 61, was appointed as our Supervisor on April 20, 2009. Mr. Fan is currently a Shareholder Supervisor of our Bank. He was the chairman of Qingdao Lucent Communications Equipment Co., Ltd. (青島朗訊通訊設備有限公司) from November 2010 to March 2015, and has been primarily responsible for coordinating its shareholders in making major corporate decisions. He served as the deputy general manager of Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. from February 2008 to March 2015, primarily responsible for the management of equity and tangible assets. Qingdao Lucent Communications Equipment Co., Ltd. is mainly engaged in the research, development, production, design and installation of communications equipment. Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. is mainly engaged in the operation of government investments and capital. Prior to that, he served as the deputy general manager of Qingdao Enterprise Development and Investment Corporation (青島市企業發展投資公司) from October 1996 to February 2008, primarily in charge of its investment department. He was also deputy chief of Qingdao Xintong Urban Credit Cooperative from August 1994 to October 1996, primarily in charge of its planning department and credit department and deputy general manager of Qingdao Trust Investment Company (青島市信託投資公司) of China Construction Bank from November 1993 to August 1994, primarily responsible for the marketing of securities, trust business and the development and building of the company. Mr. Fan also served as section chief and division chief of the Qingdao Economic Planning Commission (青島市經濟計劃委員會) from December 1980 to November 1993, primarily responsible for the management of industrial planning and mid- and long-term planning. Qingdao Enterprise Development and Investment Corporation is mainly engaged in the management and financing of the special funds designated by Qingdao Government, management of foreign investment and assets, as well as operation and management of entrusted state-owned assets. The principal businesses of Qingdao Trust Investment Company of China Construction Bank is funds operation, property trust services, economic advisory, issuance of and investment in securities and other services.

Mr. Fan graduated from the economic management track from the Shandong Academy of Governance (山東行政學院) in July 1996. He also graduated from the industry and business administration (online education) track from Nankai University in July 2005 and obtained an EMBA degree from Nankai University in December of the same year. He obtained the qualification of senior engineer from the Qingdao Personnel Bureau in November 1998.

Mr. Fan has not been a director of any publicly listed companies during the three years preceding the date of this prospectus.

Mr. SUN Jigang (孫繼剛), aged 46, was appointed as our Employee Supervisor on January 25, 2006. He has been the general manager of our credit management department since February 2010, and has been primarily responsible for management of credit risk. He joined our Bank in December 1996 and has held various positions in our Bank since then. He served as the deputy general manager and general manager of our risk control department from September 2004 to February 2010. He also served as an accountant of the business department, officer of special asset management department, deputy chief of credit planning division of the business department and assistant to the general manager of our business department from December 1996 to September 2004, primarily responsible for risk control and credit management respectively. Prior to joining our Bank, he served as a clerk of the Qingdao Check Point office under the Shandong branch of the State Administration of Foreign Exchange from July 1991 to December 1996, responsible for the verification of exports.

Mr. Sun graduated from Xiamen University, majoring in finance, and obtained a bachelor's degree in economics in July 1991. He obtained the qualification of financial economist from the Ministry of Personnel of the PRC (中華人民共和國人事部) in June 1995.

Mr. Sun has not been a director of any publicly listed companies during the three years preceding the date of this prospectus.

Mr. XU Wansheng (徐萬盛), aged 48, was appointed as our Employee Supervisor on January 23, 2007. He joined our Bank in July 2003 and has held various positions since then. He has been the general manager of our audit department since December 2012, mainly responsible for organizing our internal audits. He was the head of our internal audit department (which was renamed as audit department from February 2012) from September 2006 to December 2012, where he was mainly responsible for organizing our internal audits. He was the deputy general manager of our finance and accounting department from July 2003 to September 2006, mainly responsible for system management, check and balancing, as well as demand management. Between July 1990 to July 2003, he served various roles at the Bank of China, including staff member of the finance and accounting division of the Huanghai branch, staff member of system check and balancing section under finance and accounting division, head of system division of Qingdao branch (responsible for check and balancing, system management, as well as capital demand management), the deputy head of the Chengyang sub-branch (responsible for finance and accounting matters, savings, international settlement and office administration), the principal of the system sub-division under the finance and accounting division and the chief of the computer audit sub-division under the audit division of the Shandong branch (responsible for system management, and supervision on e-banking applications).

Mr. Xu graduated from the Shandong Industrial University (山東工業大學), majoring in applied mathematics, and obtained a bachelor's degree in engineering in July 1990. He obtained the qualification of Certified Internal Auditor from the Chinese Internal Audit Association in November 2008. He obtained the qualification of senior auditor from the Shandong Senior Professional Audit Qualification Assessment Committee (山東省審計專業資格高級評審委員會) in September 2011.

Mr. Xu has not been a director of any publicly listed companies during the three years preceding the date of this prospectus.

Mr. WANG Jianhua (王建華), aged 62, was appointed as our External Supervisor on April 10, 2015. He was a director of Happy Life Insurance Co., Ltd. from August 2007 to December 2014, mainly responsible for the management of its Shenzhen branch. He served as, among others, the director of the Shenzhen office of China Cinda Asset Management Corporation (now known as China Cinda Asset Management Co., Ltd. (a company listed on the Hong Kong Stock Exchange, stock code: 1359)) from August 1999 to August 2007. Mr. Wang was the head of the Qingdao branch of China Construction Bank from March 1998 to July 1999. He successively served as the deputy chief of the planning division, chief of the credit division, general manager of the international business department, head of the regional center sub-branch, general manager of the trust investment company, chief of the finance and accounting division and deputy head of the Jiangxi branch of China Construction Bank from August 1983 to March 1998, during which he was mainly responsible for assisting the respective heads in conducting business planning, overseeing the credit and international business and the finance and accounting matters of such branches, the operation and management of the regional center sub-branch and the trust investment company, as well as the credit and international business and the legal, secretarial, administrative and logistical affairs of such branches.

Mr. Wang graduated from Liaoning Institute of Finance and Economics (遼寧財經學院) (now known as Dongbei University of Finance and Economics), majoring in construction finance and credit, and obtained a bachelor's degree in economics in July 1983. He graduated from Xiamen University, majoring in monetary banking, and obtained a master's degree in economics in July 1997. He also obtained the qualification of senior economist from China Construction Bank in December 1992. He obtained the qualification of certified internal auditor from the Jiangxi Provincial Audit Office in January 1995 and was accredited as a non-practicing member of the Jiangxi Institute of Certified Public Accountants (江西省註冊會計師協會) in October 2001.

Mr. Wang has not been a director of any publicly listed companies during the three years preceding the date of this prospectus.

Mr. FU Changxiang (付長祥), aged 44, was appointed as our External Supervisor on April 10, 2015. He has been serving as the chief accountant in Qingdao Xinyongda Accounting Firm Co., Ltd. (青島信永達會計師事務所有限公司) since July 2003. He has also been working as a deputy general manager in Qingdao Ruize Certified Tax Agents Firm Co., Ltd. (青島瑞澤稅務師事務所有限責任公司) since November 1997. Prior to that, he worked at Qingdao Special Purpose Vehicles Factory (青島專用汽車製造廠) (now known as Sinotruk Qingdao Heavy Industry Co., Ltd.) from July 1993 to November 1997, where he was mainly responsible for the firm's finance and accounting.

Mr. Fu graduated from Lanzhou University, majoring in national economy management, and obtained a bachelor's degree in economics in June 1993. He obtained the qualification of certified public accountant from the Chinese Institute of Certified Public Accountants in May 1998, qualification of certified tax agent from the Qingdao Certified Tax Agents Management Center (青島市註冊稅務師管理中心) in June 2000 and the qualification of senior accountant from Shandong Province Finance Bureau (山東省財政廳) in December 2003.

Mr. Fu has not been a director of any publicly listed companies during the three years preceding the date of this prospectus.

Mr. HU Yanjing (胡燕京), aged 56, was appointed as our External Supervisor on April 10, 2015. Mr. Hu has been working at Qingdao University since July 1996. He has been the associate editor of the "Oriental Forum" and professor of economics since August 2013, and concurrently the deputy director of the society of Shandong University Journals (山東省高校學報學會研究會) since 2014. Mr. Hu was responsible for the editing and publication of the "Oriental Forum", the Social Science Journal of Qingdao University. He also participated in the organization and management of the Shandong Association of Journalism for Higher Education in the academic community. He was the dean and a professor of economics of the International College of Qingdao University from August 2007 to July 2013, and taught at the International Business College (國際商學院) and School of Economics (經濟學院) of Qingdao University from July 1996 to July 2007. He has been the deputy dean of International Finance College (國際金融學院) and School of Economics since December 2000. Prior to that, he taught at the political economics department of the Party School under Gansu Provincial Committee of the Communist Party of China from July 1984 to August 1993.

Mr. Hu graduated from Lanzhou University, majoring in political economics, and obtained a bachelor's and a master's degree in economics in July 1984 and June 1996, respectively. He also graduated from Ocean University of China in Shandong Province, majoring in fishery resources, and obtained a doctorate degree in agronomy in June 2004. He was granted the qualification as professor in economics by the Shandong Faculties' Professional Titles Assessment Committee for Higher Education (山東省高等學校教師職務高級評審委員會) in November 2001. Mr. Hu was awarded the third and second prizes of Shandong Outstanding Achievement in Social Science (山東省社會科學優秀成果三等獎、二等獎) by the Shandong Outstanding Achievement of Social Science Selection Committee (山東省社會科學優秀成果獎評選委員會) in March 2006 and July 2007, respectively.

Mr. Hu has not been a director of any publicly listed companies during the three years preceding the date of this prospectus.

SENIOR MANAGEMENT

The following table sets out certain information regarding our senior management.

Name	Age	Time of Joining Our Bank	Date of First Appointment as a Senior Management	Position	Responsibility
Mr. WANG Lin (王麟)	52	July 2011	March 31, 2012	President	Responsible for our overall business and management
Ms. CHEN Qing (陳青)	56	October 1996	December 31, 2004	Vice President	Responsible for corporate banking, trade finance and small business finance services
Mr. YANG Fengjiang (楊峰江)	51	July 2003	June 1, 2007	Vice President	Responsible for financial management, risk management, financial market operations and liquidity management
Ms. WANG Yu (王瑜)	47	April 2002	June 1, 2007	Vice President	Responsible for operational management and legal and compliance
Mr. YANG Changde (楊長德)	56	March 2012	August 30, 2012	Vice President	Responsible for organizational management, security and administration
Ms. LU Lan (呂嵐)	51	August 2010	August 26, 2010	Secretary to the Board	Responsible for information disclosure, investor relations and organization and coordination of general meetings and meetings of our Board and Board of Supervisors

Mr. WANG Lin (王麟)—For the biography of Mr. WANG Lin (王麟), see "—Directors—Executive Directors" in this section.

Ms. CHEN Qing (陳青), aged 56, has served as our Vice President since December 31, 2004, and has been primarily responsible for the corporate banking, trade finance business and small business finance services. She served as our assistant to the President from September 2002 to August 2004 and was primarily responsible for funds operation and the retail banking business.

Ms. Chen has over 35 years of experience in banking operations and management. She joined Qingdao City Cooperative Bank (the predecessor of our Bank) in October 1996 and has held various positions in our Bank since then. She served as the principal of the Huiheng sub-branch, deputy head of the Technology sub-branch, deputy head of the Rehe Road sub-branch and head of the Yan'ansan Road sub-branch from October 1996 to September 2002. Prior to joining our Bank, she was the chief of the planning sub-division under the planning division of the Qingdao Xintong Urban Credit Cooperative (青島信通城市信用社) from November 1994 to October 1996, primarily responsible for funds planning. She was an accounting officer of the cadre training center of PBoC from February 1994 to November 1994. Prior to that, she successively served as the deputy chief of the accounting division of the Shinan District office and director of Shinan District Tianqiao office under the Qingdao branch of Industrial and Commercial Bank of China from December 1987 to February 1994, during which she was primarily responsible for financial affairs and the operation of such branch offices, respectively. She also served as an accountant of the Shinan District office and the deputy director of the Longkou Road branch office under the Shinan District office of the Qingdao branch of PBoC from December 1980 to December 1987. In addition, she was an accountant of Jiaoxian sub-branch of PBoC from May 1978 to December 1980.

Ms. Chen graduated from Shanghai University of Finance and Economics, majoring in finance (continuing education) in December 1989. She graduated from Shandong Academy of Governance (山東行政學院), majoring in economic management (part-time) in July 1996. She also graduated from the Southwest University of Science and Technology in Sichuan Province, majoring in accounting (online education), and obtained a bachelor's degree in accounting in July 2008. She obtained the qualification of accountant from the Shandong Branch Bank Middle Assessment Committee of ICBC (中國工商銀行山東省分行中級評審委員會) in November 1987.

Ms. Chen has not been a director of any publicly listed companies during the three years preceding the date of this prospectus.

Mr. YANG Fengjiang (楊峰江)—For the biography of Mr. YANG Fengjiang (楊峰江), see "—Directors—Executive Directors" in this section.

Ms. WANG Yu (王瑜), aged 47, has been serving as our Vice President since June 1, 2007, and has been primarily responsible for operation, management and legal and compliance.

Ms. Wang has nearly 25 years of experience in banking operations and management. She joined our Bank in April 2002 and has held various positions since then. She successively served as deputy head and head of our Hong Kong East Road sub-branch, as well as assistant to our President from April 2002 to June 2007, primarily responsible for the retail banking and electronic banking businesses. Prior to joining our Bank, she successively served as cadre and staff member of the deposit and remittance division of the Huanghai branch, a senior staff member and principal staff member of the credit card division of the Qingdao branch, as well as deputy head of the high-technology park sub-branch of Bank of China from June 1990 to April 2002.

Ms. Wang graduated from Finance and Economic Institute of Tianjin (天津財經學院), majoring in enterprise management, and obtained a bachelor's degree in economics in July 1989. She graduated from Tongji University in Shanghai, majoring in business administration, and obtained a Master's of Business Administration in November 2001.

Ms. Wang has not been a director of any publicly listed companies during the three years preceding the date of this prospectus.

Mr. YANG Changde (楊長德), aged 56, has been serving as our Vice President since August 30, 2012 and assistant to our President from March 2012 to August 2012. He is primarily responsible for our management, security and administration.

Mr. Yang has over 20 years of experience in banking operations and management. He joined our Bank in March 2012. Prior to joining our Bank, he served as the chief of the personnel division of the Qingdao CBRC from April 2007 to March 2012, officer and chief of the joint-stock banks regulation division of the Qingdao CBRC from October 2003 to April 2007. Prior to that, he served as a cadre and principal staff member of the personnel division of the Qingdao branch, deputy head of the Pingdu sub-branch, deputy director and director of the office of Qingdao central sub-branch, as well as the head of the joint-stock banks regulation division of the Qingdao central sub-branch of PBoC from September 1994 to October 2003.

Mr. Yang graduated from Distance Education College (網絡教育學院) of Renmin University of China, majoring in finance, and obtained a bachelor's degree in economics in June 2007.

Mr. Yang has not been a director of any publicly listed companies during the three years preceding the date of this prospectus.

Ms. LU Lan (呂嵐), aged 51, has been serving as our secretary to the Board since August 26, 2010, and has been primarily responsible for information disclosure, investor relations and the coordination and organization of general meetings and meetings of our Board and Board of Supervisors.

Ms. Lu has nearly 15 years of experience in banking operations and management. She joined our Bank in August 2010. Prior to that, she served as a deputy manager, manager and senior manager of the office of board of directors of China Merchants Bank from October 2001 to July 2010, where she was responsible for corporate governance and the management of information disclosure. She was also a practicing lawyer working with Fuzhou Junli Law Firm (福州君立律師事務所) from August 1997 to October 2001. She served as a project manager of Jardine Fleming's Beijing office (怡富集團駐北京代表處) from August 1995 to August 1997, where she participated in H-share and B-share IPOs. She was an editor of the China Society Press from June 1990 to August 1995.

Ms. Lu graduated from Nankai University, majoring in sociology, and obtained a bachelor's and master's degree in law in July 1987 and June 1990, respectively. She has also been granted the qualification as a lawyer from the Review Committee of Lawyer Qualification under the PRC Ministry of Justice in September 1995.

Ms. Lu has not been a director of any publicly listed companies during the three years preceding the date of this prospectus.

JOINT COMPANY SECRETARIES

Ms. LU Lan (呂嵐), aged 51, was appointed as our secretary to the Board since August 26, 2010. For her biography, see "—Senior Management".

Ms. Lai Siu Kuen was appointed as one of our joint company secretaries on August 12, 2015 with the appointment taking effect on the Listing Date. Ms. Lai is a senior manager of the Listing Services Department of KCS Hong Kong Limited. Ms. Lai has over 15 years of professional and in-house experience in company secretarial field. She holds a Bachelor of Arts degree in Accountancy and is a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in United Kingdom. Ms. Lai has extensive knowledge and experience in corporate governance and compliance affairs of listed companies. She is currently the joint company secretary of several companies listed on the main board of the Hong Kong Stock Exchange, including Qingdao Port International Co., Ltd. (stock code: 6198), Jingrui Holdings Limited (stock code: 1862) and Boyaa Interactive International Limited (stock code: 434).

COMMITTEES UNDER THE BOARD

Our Bank currently has the following committees under the Board: a Strategy Committee, an Audit Committee, a Related Party Transactions Control Committee, a Risk Management Committee, a Nomination Committee, a Remuneration Committee and an Information Technology Committee. The committees operate in accordance with their respective terms of reference established by our Board.

Strategy Committee

Our Bank has established the Strategy Committee with written terms of reference. The Strategy Committee consists of seven Directors, being Mr. GUO Shaoquan, Mr. ZHOU Yunjie, Mr. Rosario STRANO, Mr. WANG Jianhui, Mr. WANG Lin, Mr. WONG Tin Yau, Kelvin, and Mr. CHEN Hua. The chairman of the Strategy Committee is Mr. GUO Shaoquan. The primary duties of the Strategy Committee include the following:

- studying and providing advice on our mid- and long-term development strategies;
- supervising and inspecting the implementation of annual operation plans and investment plans;
- studying and formulating our capital supplement plans and channels;
- studying and providing advice on our material investment plans and other material matters which may have an effect on our development;
- reviewing modification proposals of articles of association; and
- inspecting the implementation of the above items.

Audit Committee

Our Bank has established an Audit Committee with written terms of reference in compliance with the requirements under the Listing Rules. The Audit Committee consists of five Directors, being Mr. WANG Zhuquan, Mr. WANG Jianhui, Ms. TAN Lixia, Mr. WONG Tin Yau, Kelvin, and Mr. CHEN Hua. The chairman of the Audit Committee is Mr. WANG Zhuquan. The primary duties of the Audit Committee include the following:

- examining our compliance status, accounting policies, financial reporting procedures and financial position, monitoring our financial information, including the integrity of our financial statements and annual reports and accounts, interim reports and quarterly reports (if prepared for publication), and reviewing significant financial reporting judgments contained in such statements and reports;
- making recommendations to the Board on the appointment, reappointment or removal of the external auditor, and reviewing the fees and terms of engagement of the external auditor;
- examining and supervising the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- formulating and implementing policies on engaging an external auditor to provide non-audit services;
- reviewing the external auditor's letter to the management, any material queries raised by the external auditor to the management about accounting records, financial accounts or systems of control and management's response;

- acting as the key representative body for overseeing our relations with the external auditor, overseeing the communication between internal and external auditors, and ensuring coordination between the internal and external auditors;
- taking charge of the annual audit work;
- ensuring that the internal audit function is adequately resourced;
- reviewing our financial reporting system, internal control system and their implementation; and
- discussing the internal control system with management to ensure that management has performed its duty to establish an effective internal control system.

Related Party Transactions Control Committee

Our Bank has established a Related Party Transactions Control Committee with written terms of reference. The Related Party Transactions Control Committee consists of five Directors, being Mr. CHEN Hua, Mr. YANG Fengjiang, Mr. WANG Zhuquan, Mr. DU Wenhe, and Mr. WONG Tin Yau, Kelvin. The chairman of the Related Party Transactions Control Committee is Mr. CHEN Hua. The primary duties of the Related Party Transactions Control Committee include the following:

- identifying related parties and connected persons; and
- conducting review of related parties transactions and connected transactions subject to review by the Board and general meeting of shareholders, reporting such related parties transactions and connected transactions to the Board, and reviewing the related parties transactions and connected transactions within the scope of authority of the Board.

Risk Management Committee

Our Bank has established a Risk Management Committee with written terms of reference. The Risk Management Committee consists of five Directors, being Mr. WANG Lin, Ms. TAN Lixia, Mr. Marco MUSSITA, Mr. YANG Fengjiang and Mr. CHEN Hua. The chairman of the Risk Management Committee is Mr. WANG Lin. The primary duties of the Risk Management Committee include the following:

- supervising the risk control condition conducted by the senior management in credit, marketing, liquidity, operation, compliance, information technology and reputation, and conducting regular reviews of the risk reports;
- assessing our risk policies, management, tolerance and capacity;
- supervising our risk management and internal control systems, and making proposals on the improvement plans of our risk management and internal control;
- discussing our risk management and internal control system with management to ensure the effectiveness of our risk management systems;
- conducting regular review of and supervising the effectiveness of our risk management system, and assisting the Board to report the completed reviews to the shareholders; and
- conducting research on major investigation findings in relation to internal control matters and management’s response to these findings.

Nomination Committee

Our Bank has established the Nomination Committee with written terms of reference in compliance with the requirements under the Listing Rules. The Nomination Committee consists of seven Directors, being Mr. WONG Tin Yau, Kelvin, Mr. GUO Shaoquan, Mr. ZHOU Yunjie, Mr. WANG Lin, Mr. WANG Zhuquan, Mr. DU Wenhe, and Mr. CHEN Hua. The chairman of the Nomination Committee is Mr. WONG Tin Yau, Kelvin. The primary duties of the Nomination Committee include the following:

- reviewing the structure, size and composition of the Board annually, and making recommendations on any proposed changes to the Board to complement our strategy;
- formulating the criteria and procedures for selecting directors and senior management members and succession planning for directors, and making recommendations to the Board;
- extensively identifying qualified candidates for directors and senior management members, and making recommendations to the Board;
- conducting the preliminary examination of qualifications of candidates for directorships and senior management positions, and making recommendations to the Board on the selection; and
- assessing the independence of independent non-executive directors.

Remuneration Committee

Our Bank has established the Remuneration Committee with written terms of reference in compliance with the requirements under the Listing Rules. The Remuneration Committee consists of seven Directors, being Mr. WANG Zhuquan, Mr. GUO Shaoquan, Mr. ZHOU Yunjie, Mr. Rosario STRANO, Mr. WONG Tin Yau, Kelvin, Mr. DU Wenhe and Mr. CHEN Hua. The chairman of the Remuneration Committee is Mr. WANG Zhuquan. The primary duties of the Remuneration Committee include the following:

- studying the criteria for appraising Directors and senior management members, conducting the appraisal, and submitting the appraisement reports to the Board;
- formulating our policy and structure of remuneration management, formulating the policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy, and making recommendations to the Board and overseeing the execution of the proposal;
- reviewing and approving the management's remuneration proposals with reference to the corporate goals and objectives formulated by the Board;
- reviewing and approving compensations payable to directors and senior management members for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
- reviewing and approving compensation arrangements relating to dismissal or removal of any director for his misconduct to ensure that such arrangements are consistent with contractual terms and are otherwise reasonable and appropriate; and
- ensuring that no director or any of his associates is involved in deciding his own remuneration.

Information Technology Committee

Our Bank has established an Information Technology Committee with written terms of reference. The Information Technology Committee consists of five Directors, being Mr. DU Wenhe, Mr. GUO Shaoquan, Ms. TAN Lixia, Mr. WANG Lin and Mr. Marco MUSSITA. The chairman of the Information Technology Committee is Mr. DU Wenhe. The primary duties of the Information Technology Committee include the following:

- studying and formulating the strategy of information technology, and submitting the strategy to the Board for review;
- appraising the overall result of the work of information technology of our Bank, and the process of strategic planning and other material projects;
- instructing and supervising the development and governance of the work of information technology in senior management and other departments, and conducting risk identification, measurement and control; and
- listening to or reviewing the information technology management report, business continuity management report, and special auditor's report in information technology, and providing advices.

COMMITTEES UNDER THE BOARD OF SUPERVISORS

In addition to the above committees under the Board, our Bank has also established two committees under our Board of Supervisors: a Supervision Committee and a Nomination and Evaluation Committee. The committees operate in accordance with terms of reference established by our Board of Supervisors.

Supervision Committee

The Supervision Committee consists of five Supervisors, being Mr. FU Changxiang, Ms. ZOU Junqiu, Mr. FAN Jianjun, Mr. HU Yanjing and Mr. XU Wansheng. The chairman of the Supervision Committee is Mr. FU Changxiang. The primary duties of the Supervision Committee include the following:

- drafting the plans on supervising our Bank's financial activities, and implementing such supervisions;
- supervising the Board for the establishment of stable operation principle, value criterion, and formulating the development strategy appropriate for our current situation; and
- supervising and examining our Bank's operation decisions, risk management and internal control.

Nomination and Evaluation Committee

The Nomination and Evaluation Committee consists of five Supervisors, being Mr. HU Yanjing, Ms. ZOU Junqiu, Mr. WANG Jianhua, Mr. FU Changxiang and Mr. SUN Jigang. The chairman of the Nomination and Evaluation Committee is Mr. HU Yanjing. The primary duties of the Nomination and Evaluation Committee include the following:

- researching the criteria and procedures for selecting supervisors, and providing advice to our Board of Supervisors;

- conducting preliminary review on the qualifications of supervisor candidates, and providing advice on it;
- supervising the procedures for the selection and appointment of directors and independent directors; and
- conducting comprehensive evaluation on the work performance of directors, supervisors and members of senior management and reporting to the Board of Supervisors.

COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Our Bank offers our Executive Directors, Employee Representative Supervisors and senior management members, who are also our employees, compensation in the form of salaries, bonuses, social security plans, housing provident fund plans and other benefits. Our Independent Non-executive Directors and External Supervisors receive compensation based on their responsibilities.

The aggregate amounts of pre-tax remuneration paid by us to our Directors and Supervisors for the years ended December 31, 2012, 2013 and 2014 and the six months ended June 30, 2015 were approximately RMB8.467 million, RMB9.959 million, RMB9.993 million and RMB4.601 million, respectively.

The aggregate amounts of pre-tax remuneration paid by us to our five highest paid individuals for the years ended December 31, 2012, 2013 and 2014 and the six months ended June 30, 2015 were approximately RMB7.726 million, RMB8.245 million, RMB8.319 million and RMB3.855 million, respectively.

It is estimated that pre-tax remuneration equivalent to approximately RMB10.000 million in aggregate will be paid to the Directors and Supervisors by our Bank in 2015 based on the arrangements in force as of the date of this prospectus.

No remuneration was paid to the Directors, Supervisors or our five highest paid individuals as an inducement to join, or upon joining, our Bank. No compensation was paid to, or is receivable by, our Directors, past Directors or the five highest paid individuals during the Track Record Period for the loss of office as our director or of any other offices in connection with the management of the affairs. None of the Directors waived any emoluments during the same period.

Except as disclosed above, no other payments have been paid or are payable, in the years ended December 31, 2012, 2013 and 2014 and the six months ended June 30, 2015, respectively, by us to the Directors.

DIRECTORS' AND SUPERVISORS' INTEREST

Except as disclosed in this prospectus, each of the Directors and Supervisors: (i) did not hold other positions in our Bank as of the Latest Practicable Date; (ii) had no other relationship with any of our Directors, senior management or substantial shareholder as of the Latest Practicable Date; and (iii) did not hold any other directorship in listed companies in the three years prior to the Latest Practicable Date. For our Directors' and Supervisors' interests in the Domestic Shares within the meaning of Part XV of the SFO, see Appendix VII—"Statutory and General Information".

Except as disclosed herein, none of our Directors are interested in any business, apart from our business, which competes or is likely to compete, either directly or indirectly, with our business under Rule 8.10(2) of the Listing Rules.

Except as disclosed herein, to the best of the knowledge, information and belief of our Directors and Supervisors, having made all reasonable inquiries, there were no additional matters with respect to the appointment of our Directors or Supervisors that need to be brought to the attention of the Shareholders and there were no additional information relating to our Directors or Supervisors that are required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as of the Latest Practicable Date.

COMPLIANCE ADVISOR

We have appointed Somerley Capital Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance advisor will advise our Bank in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- where our Bank proposes to use the proceeds of the Global Offering in a manner that is different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecasts, estimates or other information in this prospectus; and
- where the Hong Kong Stock Exchange makes an inquiry of our Bank regarding unusual movements in the price or trading volume of our H Shares, the possible development of a false market in our H Shares or any other matters.

The terms of the appointment of the compliance advisor will commence on the Listing Date and end on the date when we distribute the annual report of our financial results for the first full financial year commencing after the Listing Date.

As of the Latest Practicable Date, our share capital was 3,111,532,749 Shares with nominal value of RMB1.00 each. The following persons directly or indirectly control, or are entitled to exercise, or control the exercise of, 5% or more of our Shares.

Name of Shareholder	No. of Shares directly or indirectly held	Approximate percentage of share capital
Haier Group Corporation (海爾集團公司) (Note 1)(Note 4)	812,214,572	26.10%
Qingdao Haier Investment and Development Co., Ltd. (青島海爾投資發展有限公司) (Note 2)(Note 4)	812,214,572	26.10%
Qingdao Haier Co., Ltd. (青島海爾股份有限公司) (Note 3)(Note 4)	384,344,485	12.35%
Qingdao Haier Air-Conditioner Electronics Co., Ltd. (青島海爾空調電子有限公司) (Note 4)	218,692,010	7.03%
ISP	622,306,980	20.00%
Qingdao Conson Development (Group) Co., Ltd. (青島國信發展(集團)有限責任公司) (Note 5)	533,078,968	17.13%
Qingdao Conson	533,078,968	17.13%

(1) These 812,214,572 Shares are held directly or indirectly as to 384,344,485 Shares by Qingdao Haier Co., Ltd., directly as to 12,543,033 Shares by Qingdao Haier Tooling Development Co., Ltd. (青島海爾工裝研製有限公司), and directly or indirectly as to 415,327,054 Shares by Qingdao Haier Investment and Development Co., Ltd.. Haier Group Corporation holds 38.27% equity interest in Qingdao Haier Co., Ltd., 95% equity interest in Qingdao Haier Tooling Development Co., Ltd., and 84.47% equity interest in Qingdao Haier Investment and Development Co., Ltd.. In addition, Haier Group Corporation and Qingdao Haier Investment and Development Co., Ltd. are persons acting in concert.

(2) These 812,214,572 Shares are held as to 409,693,339 Shares by Qingdao Haier Investment and Development Co., Ltd., as to 5,633,715 Shares by Qingdao Haier Insurance Agency Co., Ltd. (青島海爾保險代理有限公司) and indirectly as to 396,887,518 Shares by Haier Group Corporation. Qingdao Haier Investment and Development Co., Ltd. holds 100% equity interest in Qingdao Haier Insurance Agency Co., Ltd.. In addition, Qingdao Haier Investment and Development Co., Ltd. and Haier Group Corporation are persons acting in concert.

(3) These 384,344,485 Shares are held as to 139,663,690 Shares by Qingdao Haier Co., Ltd., 218,692,010 Shares by Qingdao Haier Air-Conditioner Electronics Co., Ltd., 17,246,671 Shares by Qingdao Haier Mold Co., Ltd. (青島海爾模具有限公司), 5,957,940 Shares by Qingdao Haier Robot Co., Ltd. (青島海爾機器人有限公司), 1,856,116 Shares by Qingdao Haier Air-Conditioner Co., Ltd. (青島海爾空調器有限總公司), and 928,058 Shares by Qingdao Haier Special Refrigerator Co., Ltd. (青島海爾特種電冰櫃有限公司). Qingdao Haier Co., Ltd. holds 100% equity interest in Qingdao Haier Air-Conditioner Electronics Co., Ltd., 100% equity interest in Qingdao Haier Mold Co., Ltd., 50% equity interest in Qingdao Haier Robot Co., Ltd., 99.9% equity interest in Qingdao Haier Air-Conditioner Co., Ltd., and 100% equity interest in Qingdao Haier Special Refrigerator Co., Ltd..

(4) Haier holds our Shares through nine corporate shareholders and is our largest Shareholder. The principal business of Haier covers household appliances, communication, information technology and digital products, household commodities, logistics, financial, real estate, bio-pharmaceuticals and other sectors. Qingdao Haier Co., Ltd. is listed on the Shanghai Stock Exchange (stock code: 600690). Qingdao Haier Air-Conditioner Electronics Co., Ltd., Qingdao Haier Mold Co., Ltd., Qingdao Haier Robot Co., Ltd., Qingdao Haier Air-Conditioner Co., Ltd., and Qingdao Haier Special Refrigerator Co., Ltd. are subsidiaries of Qingdao Haier Co., Ltd.. Haier Group Corporation, Qingdao Haier Investment and Development Co., Ltd., Qingdao Haier Tooling Development Co., Ltd. and Qingdao Haier Insurance Agency Co., Ltd. are non-listed companies. In addition, Haier Group Corporation is an enterprise with collective ownership.

(5) Qingdao Conson is 100% owned by Qingdao Conson Development (Group) Co., Ltd..

Having made due and careful inquiry, save as disclosed above, the abovenamed Shareholders are independent from each other.

Immediately following the completion of the Global Offering:

- assuming the Over-allotment Option is not exercised, our share capital will comprise 4,011,532,749 Shares, including 2,300,395,769 Domestic Shares and 1,711,136,980 H Shares, representing 57.34% and 42.66% of our total share capital, respectively; and

- assuming the Over-allotment Option is fully exercised, our share capital will comprise 4,146,532,749 Shares, including 2,286,895,769 Domestic Shares and 1,859,636,980 H Shares, representing 55.15% and 44.85% of our total share capital, respectively.

So far as our Directors are aware, immediately following the completion of the Global Offering, the following persons will have an interest or a short position in our Shares or underlying shares which would be required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at our general meetings.

			Immediately following the completion of the Global Offering (assuming no exercise of the Over-allotment Option)			Immediately following the completion of the Global Offering (assuming full exercise of the Over-allotment Option)		
Name of Shareholder	**Nature of Interest**	**Class**	**Number of Shares directly or indirectly held**	**Approximate % of interest in our Bank**	**Approximate % of the relevant class of Shares**	**Number of Shares directly or indirectly held**	**Approximate % in interest in our Bank**	**Approximate % of the relevant class of Shares**
Haier Group Corporation (海爾集團公司)	Interest of controlled corporation and other interests (Note 1)	Domestic Shares	812,214,572	20.25%	35.31%	812,214,572	19.59%	35.52%
Qingdao Haier Investment and Development Co., Ltd. (青島海爾投資發展有限公司)	Beneficial owner, interest of controlled corporation and other interests (Note 2)	Domestic Shares	812,214,572	20.25%	35.31%	812,214,572	19.59%	35.52%
Qingdao Haier Co., Ltd. (青島海爾股份有限公司)	Beneficial owner and interest of controlled corporation (Note 3)	Domestic Shares	384,344,485	9.58%	16.71%	384,344,485	9.27%	16.81%
Qingdao Haier Air-Conditioner Electronics Co., Ltd. (青島海爾空調電子有限公司)	Beneficial owner	Domestic Shares	218,692,010	5.45%	9.51%	218,692,010	5.27%	9.56%
ISP	Beneficial owner	H Shares	622,306,980	15.51%	36.37%	622,306,980	15.01%	33.46%
Qingdao Conson Development (Group) Co., Ltd. (青島國信發展(集團)有限責任公司)	Interest of controlled corporation (Note 4)	Domestic Shares	507,117,630	12.64%	22.04%	496,927,421	11.98%	21.73%
Qingdao Conson	Beneficial owner	Domestic Shares	507,117,630	12.64%	22.04%	496,927,421	11.98%	21.73%
Chan Mei Ching	Interest of controlled corporation (Note 5)	H Shares	200,000,000	4.99%	11.69%	200,000,000	4.82%	10.75%
Chan Min Chi	Interest of controlled corporation (Note 5)	H Shares	200,000,000	4.99%	11.69%	200,000,000	4.82%	10.75%

Name of Shareholder	Nature of Interest	Class	Immediately following the completion of the Global Offering (assuming no exercise of the Over-allotment Option)			Immediately following the completion of the Global Offering (assuming full exercise of the Over-allotment Option)		
			Number of Shares directly or indirectly held	Approximate % of interest in our Bank	Approximate % of the relevant class of Shares	Number of Shares directly or indirectly held	Approximate % in interest in our Bank	Approximate % of the relevant class of Shares
LRC. Strategic (Global) Investment Group Limited	Interest of controlled corporation (Note 5)	H Shares	200,000,000	4.99%	11.69%	200,000,000	4.82%	10.75%
LRC. Belt and Road Investment Limited	Beneficial Owner	H Shares	200,000,000	4.99%	11.69%	200,000,000	4.82%	10.75%
Jinan Binhe New District Constructive Investment Group (濟南濱河新區建設投資集團有限公司)	Beneficial Owner	H Shares	200,000,000	4.99%	11.69%	200,000,000	4.82%	10.75%
Ge Shoujiao (葛守蛟)	Interest of controlled corporation (Note 6)	Domestic Shares	152,170,000	3.79%	6.61%	152,170,000	3.67%	6.65%
Leng Qiyuan (冷啟媛)	Interest of controlled corporation (Note 6)	Domestic Shares	152,170,000	3.79%	6.61%	152,170,000	3.67%	6.65%
Shandong Sanliyuan Trading Co., Ltd. (山東三利源經貿有限公司)	Beneficial owner	Domestic Shares	152,170,000	3.79%	6.61%	152,170,000	3.67%	6.65%
Han Huiru (韓滙如)	Interest of controlled corporation (Note 7)	Domestic Shares	133,910,000	3.34%	5.82%	133,910,000	3.23%	5.86%
Wang Yunyun (王芸芸)	Interest of spouse (Note 7)	Domestic Shares	133,910,000	3.34%	5.82%	133,910,000	3.23%	5.86%
Qingdao East Steel Tower Stock Co., Ltd. (青島東方鐵塔股份有限公司)	Interest of controlled corporation (Note 7)	Domestic Shares	133,910,000	3.34%	5.82%	133,910,000	3.23%	5.86%
Qingdao Hairen Investment Co., Ltd. (青島海仁投資有限責任公司)	Beneficial owner	Domestic Shares	133,910,000	3.34%	5.82%	133,910,000	3.23%	5.86%
Ouyang Xinxiang (歐陽新香)	Interest of controlled corporation (Note 8)	H Shares	110,000,000	2.74%	6.43%	110,000,000	2.65%	5.92%
Keystone Group LTD.	Beneficial Owner	H Shares	110,000,000	2.74%	6.43%	110,000,000	2.65%	5.92%
Yan Lei (閆磊)	Interest of controlled corporation (Note 9)	H Shares	100,000,000	2.49%	5.84%	100,000,000	2.41%	5.38%

Name of Shareholder	Nature of Interest	Class	Immediately following the completion of the Global Offering (assuming no exercise of the Over-allotment Option)			Immediately following the completion of the Global Offering (assuming full exercise of the Over-allotment Option)		
			Number of Shares directly or indirectly held	Approximate % of interest in our Bank	Approximate % of the relevant class of Shares	Number of Shares directly or indirectly held	Approximate % in interest in our Bank	Approximate % of the relevant class of Shares
Yue Jingfeng (岳敬鋒)	Interest of controlled corporation (Note 9)	H Shares	100,000,000	2.49%	5.84%	100,000,000	2.41%	5.38%
Rizhao Huaheng Materials Trade Co., Ltd. (日照市華亨物資貿易有限公司)	Beneficial Owner	H Shares	100,000,000	2.49%	5.84%	100,000,000	2.41%	5.38%
Rothschild & Co SCA	Interest of controlled corporation (Note 10)	H Shares	98,830,000	2.46%	5.78%	98,830,000	2.38%	5.31%
Rothschilds	Beneficial owner	H Shares	98,830,000	2.46%	5.78%	98,830,000	2.38%	5.31%

(1) These 812,214,572 Shares are held directly or indirectly as to 384,344,485 Shares by Qingdao Haier Co., Ltd., directly as to 12,543,033 Shares by Qingdao Haier Tooling Development Co., Ltd., and directly or indirectly as to 415,327,054 Shares by Qingdao Haier Investment and Development Co., Ltd.. Haier Group Corporation holds 38.27% equity interest in Qingdao Haier Co., Ltd., 95% equity interest in Qingdao Haier Tooling Development Co., Ltd., and 84.47% equity interest in Qingdao Haier Investment and Development Co., Ltd.. In addition, Haier Group Corporation and Qingdao Haier Investment and Development Co., Ltd. are persons acting in concert. Therefore, Haier Group Corporation is deemed or taken to be interested in all our Shares held by the aforementioned companies for the purpose of the SFO.

(2) These 812,214,572 Shares are held as to 409,693,339 Shares by Qingdao Haier Investment and Development Co., Ltd., as to 5,633,715 Shares by Qingdao Haier Insurance Agency Co., Ltd. and indirectly as to 396,887,518 Shares by Haier Group Corporation. Qingdao Haier Investment and Development Co., Ltd. holds 100% equity interest in Qingdao Haier Insurance Agency Co., Ltd. In addition, Qingdao Haier Investment and Development Co., Ltd. and Haier Group Corporation are persons acting in concert. Therefore, Qingdao Haier Investment and Development Co., Ltd. is deemed or taken to be interested in all our Shares held by the aforementioned companies for the purpose of the SFO.

(3) These 384,344,485 Shares are held as to 139,663,690 Shares by Qingdao Haier Co., Ltd., 218,692,010 Shares by Qingdao Haier Air-Conditioner Electronics Co., Ltd., 17,246,671 Shares by Qingdao Haier Mold Co., Ltd., 5,957,940 Shares by Qingdao Haier Robot Co., Ltd., 1,856,116 Shares by Qingdao Haier Air-Conditioner Co., Ltd. and 928,058 Shares by Qingdao Haier Special Refrigerator Co., Ltd.. Qingdao Haier Co., Ltd. holds 100% equity interest in Qingdao Haier Air-Conditioner Electronics Co., Ltd., 100% equity interest in Qingdao Haier Mold Co., Ltd., 50% equity interest in Qingdao Haier Robot Co., Ltd., 99.9% equity interest in Qingdao Haier Air-Conditioner Co., Ltd. and 100% equity interest in Qingdao Haier Special Refrigerator Co., Ltd.. Therefore, Qingdao Haier Co., Ltd. is deemed or taken to be interested in all our Shares held by the aforementioned companies for the purpose of the SFO.

(4) Qingdao Conson is 100% owned by Qingdao Conson Development (Group) Co., Ltd.. Therefore, Qingdao Conson Development (Group) Co., Ltd. is deemed or taken to be interested in all our Shares held by Qingdao Conson for the purpose of the SFO.

(5) Chan Mei Ching and Chan Min Chi hold 47% and 51% equity interest in LRC. Strategic (Global) Investment Group Limited, respectively. LRC. Strategic (Global) Investment Group Limited holds 99% equity interest in LRC. Belt and Road Investment Limited. Therefore, each of Chan Mei Ching, Chan Min Chi and LRC. Strategic (Global) Investment Group Limited is deemed or taken to be interested in all our Shares held by LRC. Belt and Road Investment Limited for the purpose of the SFO.

(6) Ge Shoujiao and Leng Qiyuan hold 55% and 45% equity interest in Shandong Sanliyuan Trading Co., Ltd. respectively. Therefore, Ge Shoujiao and Leng Qiyuan are deemed or taken to be interested in all our Shares held by Shandong Sanliyuan Trading Co., Ltd. for the purpose of the SFO.

(7) Qingdao Hairen Investment Co., Ltd. is 100% owned by Qingdao East Steel Tower Stock Co., Ltd., which is in turn 52.45% owned by Han Huiru. Therefore, Qingdao East Steel Tower Stock Co., Ltd and Han Huiru are deemed or taken to be interested in all our Shares held by Qingdao Hairen Investment Co., Ltd. for the purpose of the SFO. Wang Yunyun is the spouse of Han Huiru. Therefore, Wang Yunyun is deemed or taken to be interested in all our Shares held by Han Huiru for the purpose of the SFO.

(8) Keystone Group LTD. is 100% owned by Ouyang Xinxiang. Therefore, Ouyang Xinxiang is deemed or taken to be interested in all our Shares held by Keystone Group LTD. for the purpose of the SFO.

(9) Yan Lei and Yue Jingfeng hold 60% and 40% equity interest in Rizhao Huaheng Materials Trade Co., Ltd., respectively. Therefore, each of Yan Lei and Yue Jingfeng is deemed or taken to be interested in all our Shares held by Rizhao Huaheng Materials Trade Co., Ltd. for the purpose of the SFO.

(10) Rothschilds is 98.40% owned by Rothschild & Co SCA as of March 31, 2015. Therefore, Rothschild & Co SCA is deemed or taken to be interested in all our Shares held by Rothschilds for the purpose of the SFO.

As of the Latest Practicable Date, our share capital is 3,111,532,749 Shares, with nominal value of RMB1.00 each. Immediately after completion of the Global Offering, if the Over-allotment Option is not exercised, our total share capital would be as follows.

Class	Number of Shares	Approximate percentage of share capital
Domestic Shares	2,300,395,769	57.34%
H Shares to be converted from Unlisted Foreign Shares held by ISP and Rothschilds	721,136,980	17.98%
H Shares to be converted from Domestic Shares	90,000,000	2.24%
H Shares to be issued pursuant to the Global Offering	900,000,000	22.44%
Total	4,011,532,749	100.00%

If the Over-allotment Option is exercised in full, our total share capital would be as follows.

Class	Number of Shares	Approximate percentage of share capital
Domestic Shares	2,286,895,769	55.15%
H Shares to be converted from Unlisted Foreign Shares held by ISP and Rothschilds	721,136,980	17.39%
H Shares to be converted from Domestic Shares	103,500,000	2.50%
H Shares to be issued pursuant to the Global Offering	1,035,000,000	24.96%
Total	4,146,532,749	100.00%

OUR SHARES

Upon completion of the Global Offering and the conversion of unlisted foreign shares held by ISP and Rothschilds into H Shares, we would have two classes of Shares, namely Domestic Shares and H Shares. Both Domestic Shares and H Shares are ordinary shares in our share capital. However, apart from certain qualified domestic institutional investors in the PRC, qualified PRC investors under the Shanghai-Hong Kong stock exchanges connectivity mechanism (Shanghai-Hong Kong Stock Connect) and other persons entitled to hold our H Shares pursuant to relevant PRC laws and regulations, or upon approval by any competent authorities, H Shares generally may not be subscribed for by, or traded between, legal or natural persons of the PRC.

Domestic Shares and H Shares are regarded as different classes of shares under our Articles of Association. The differences between Domestic Shares and H Shares, and the provisions on class rights, the dispatch of notices and financial reports to shareholders, dispute resolution, registration of Shares on different registers of shareholders, the method of share transfer and appointment of dividend receiving agents are set forth in our Articles of Association and summarized in Appendix V—"Summary of Articles of Association". The rights conferred on any class of shareholders may not be varied or abrogated unless approved by a special resolution of the shareholders' general meeting and by holders of such class of shares at a separate shareholders' general meeting. The circumstances which shall be deemed to be a variation or abrogation of the rights of a class of shareholders are listed in Appendix V—"Summary of Articles of Association". However, the procedures for approval by separate classes of shareholders do not apply: (i) where we issue, upon approval by a special resolution of the shareholders in a general meeting, shares representing no more than 20% of each of the existing issued Domestic Shares and H Shares, either separately or concurrently once every 12 months; (ii) where our plan to issue Domestic Shares and H Shares at the time of our establishment is implemented within 15 months from the date of approval by the securities regulatory authorities of the State Council; or (iii) where the conversion of our unlisted shares into overseas listed shares for listing and trading on overseas stock exchanges by our Shareholders upon the approval by the banking regulatory authorities and the securities regulatory authorities of the State Council.

Except for the differences above, Domestic Shares and H Shares will rank *pari passu* with each other in all other respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this prospectus. All dividends in respect of the H Shares are to be declared in Renminbi and paid by us in Hong Kong Dollars whereas all dividends in respect of Domestic Shares are to be paid by us in Renminbi. In addition to cash, dividends may be distributed in the form of shares.

TRANSFER AND SALE OF STATE-OWNED SHARES

In accordance with relevant PRC regulations regarding transfer of state-owned shares, our 18 state-owned shareholders are required to transfer to NSSF, such number of H Shares in aggregate equivalent to 10% of our total issued share capital (being 90,000,000 H Shares before the exercise of the Over-allotment Option or 103,500,000 H Shares in the case of full exercise of the Over-allotment Option) or pay equivalent cash to NSSF at the Offer Price of the Global Offering or both. At the time of listing of our H shares on the Hong Kong Stock Exchange, such Domestic Shares will be converted into H Shares on a one-for-one basis. Our Bank and such state-owned shareholders will not receive any amount in respect of the transfer of Domestic Shares to NSSF.

The transfer of state-owned shares by the abovementioned state-owned shareholders to NSSF was approved by the SASAC on July 30, 2015. The conversion of those Domestic Shares into H Shares was approved by CSRC on September 25, 2015.

Pursuant to a letter issued by the NSSF (She Bao Ji Jin Fa [2015] No. 177) on November 5, 2015, the NSSF instructed us to (i) arrange for the sale of the Sale Shares; and (ii) remit the proceeds from the sale of the Sale Shares to an account designated by the NSSF. We have been advised by our PRC legal advisor, King & Wood Mallesons, that the transfer and sale described above and the conversion have been approved by the relevant PRC authorities and are in compliance with PRC law.

CONVERSION OF OUR DOMESTIC SHARES INTO H SHARES

According to the regulations by the securities regulatory authorities of the State Council and our Articles of Association, our Domestic Shares may be converted into overseas listed shares. Such converted Shares could be listed or traded on an overseas stock exchange. Such conversion and listing and trading shall have gone through any requisite internal approval process and approved by the relevant authorities, including CSRC, and complied with the regulations prescribed by the securities regulatory authorities of the State Council and the regulations, requirements and procedures prescribed by the relevant stock exchange. If any Domestic Shares are to be converted to H Shares and traded on the Hong Kong Stock Exchange, such conversion shall require the approval of the relevant PRC regulatory authorities, including CSRC. The listing and trading of such converted Shares on the Hong Kong Stock Exchange will also require the approval of the Hong Kong Stock Exchange.

Based on the procedures for the conversion of Domestic Shares into H Shares as disclosed below, we may apply for the listing of all or any portion of the Domestic Shares on the Hong Kong Stock Exchange as H Shares before any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Hong Kong Stock Exchange and delivery of shares for entry on the H Share register. As any listing of additional Shares after our initial listing on the Hong Kong Stock Exchange is ordinarily considered by the Hong Kong Stock Exchange to be a purely administrative matter, it does not require such prior application for listing at the time of our initial listing in Hong Kong.

No approval by separate class meeting is required for the listing and trading of such converted shares on an overseas stock exchange. Any application for listing of the converted shares on the Hong Kong Stock Exchange after our initial listing is subject to prior notification by way of announcement to inform our Shareholders and the public of any proposed conversion.

After all the requisite approvals have been obtained, the following procedures will need to be completed: the relevant Domestic Shares will be withdrawn from the China Securities Depository and Clearing Corporation Limited and we will re-register such Shares on our H Share register maintained in Hong Kong and instruct the H Share Registrar to issue H Share certificates. Registration on our H Share register will be on the conditions that (i) our H Share Registrar lodges with the Hong Kong Stock Exchange a letter confirming the entry of the relevant H Shares on the H Share register and the due dispatch of H Share certificates and (ii) the admission of the H Shares to trade on the Hong Kong Stock Exchange complies with the Listing Rules and the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the converted shares are re-registered on our H Share register, such shares would not be listed as H Shares.

LOCK-UP PERIODS

Pursuant to the PRC Company Law, the Shares issued prior to any public offering of our Shares should not be transferred within one year from the date on which our publicly offered Shares are listed on the relevant stock exchange. Accordingly, the Shares issued by our Bank prior to the Listing Date shall be subject to such statutory restriction on transfer within a period of one year from the Listing Date. However, the shares to be transferred by the above state-owned shareholders to NSSF in accordance with relevant PRC rules regarding disposal of state-owned shares shall not be subject to the above legal requirements.

Pursuant to the PRC Company Law, the Shares held by the nine companies under Haier should not be transferred within one year since the Listing Date. Each of Qingdao Conson, the six companies under Haier (including Qingdao Haier Mold Co., Ltd., Qingdao Haier Tooling Development Co., Ltd., Qingdao Haier Robot Co., Ltd., Qingdao Haier Co., Ltd., Qingdao Haier Air-Conditioner Co., Ltd., and Qingdao Haier Special Refrigerator Co., Ltd.) and ISP, our shareholders who subscribed for our Shares in 2014, has also undertaken not to transfer the 95,179,773 Shares, 145,018,723.97 Shares and 111,111,187 Shares in such subscription respectively, within five years since February 28, 2015, the date on which the change of registration at the Administration for Industry and Commerce in respect of the subscription was completed. In addition, ISP further undertakes not to transfer all other Shares which it holds within three years since the Listing Date. All shares held by ISP before the Listing Date will be converted into H Shares upon Listing.

Nine of our Directors, Supervisors and senior management of our Bank and the 106 Shareholders holding more than 50,000 staff shares have undertaken that, in compliance with the requirements of regulatory authorities, they will not transfer the 23,863,890 Shares of our Bank held by them in aggregate within three years since the Listing Date.

SHAREHOLDERS' GENERAL MEETINGS AND CLASS MEETINGS

For details of circumstances under which our Shareholders' general meeting and Shareholders' class meeting are required, see subsections "Notice of Meetings and Matters to be Considered" and "Change of Rights of Existing Shares or Classes of Shares" in Appendix V—"Summary of Articles of Association".

You should read the discussion and analysis set forth in this section in conjunction with our historical financial information, together with the accompanying notes included in Appendix I—"Accountants' Report". Our historical financial information have been prepared in accordance with IFRS.

ASSETS

Our total assets increased by 33.5% from RMB101,658 million as of December 31, 2012 to RMB135,689 million as of December 31, 2013, which in turn increased by 15.1% to RMB156,166 million as of December 31, 2014. As of June 30, 2015, our total assets amounted to RMB169,409 million. The principal components of our assets consist of (i) loans to customers (net) and (ii) investment securities and other financial assets (net), representing 40.2% and 41.3%, respectively, of our total assets as of June 30, 2015. The following table sets forth, as of the dates indicated, the components of our total assets.

	As of December 31,						As of June 30,	
	2012		2013		2014		2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Gross loans to customers	45,723		55,630		62,988		69,959	
Allowance for impairment losses	(1,227)		(1,524)		(1,740)		(1,823)	
Loans to customers, net	44,496	43.9%	54,106	39.9%	61,248	39.2%	68,136	40.2%
Investment securities and other financial assets								
Financial assets at fair value through profit or loss	284	0.3	184	0.1	190	0.1	293	0.2
Available-for-sale financial assets	9,486	9.3	6,077	4.5	14,123	9.0	10,601	6.3
Held-to-maturity investments	13,363	13.1	18,906	13.9	19,721	12.6	21,729	12.8
Investments classified as receivables	562	0.6	20,470	15.1	27,209	17.5	37,342	22.0
Subtotal	23,695	23.3	45,637	33.6	61,243	39.2	69,965	41.3
Cash and deposits with central bank	20,072	19.7	20,871	15.4	23,610	15.1	21,552	12.7
Financial assets held under resale agreements	5,857	5.8	8,208	6.0	2,698	1.7	1,016	0.6
Deposits with banks and other financial institutions	3,586	3.5	2,481	1.8	2,019	1.3	3,012	1.8
Placements with banks and other financial institutions	1,063	1.0	700	0.5	1,156	0.7	1,357	0.8
Other assets[(1)]	2,889	2.8	3,686	2.8	4,192	2.8	4,371	2.6
Total assets	**101,658**	**100.0%**	**135,689**	**100.0%**	**156,166**	**100.0%**	**169,409**	**100.0%**

(1) Consists primarily of prepayment for long-term assets, interest receivables, property and equipment, deferred tax assets, long-term deferred expenses, intangible assets, and other receivables. Other assets are net of the related allowance for impairment losses of nil, RMB526 thousand, RMB479 thousand and RMB431 thousand as of December 31, 2012, 2013 and 2014 and June 30, 2015, respectively.

Loans to Customers

Loans to customers are an important component of our assets. Our loans to customers, net of allowance for impairment losses, represented 43.9%, 39.9%, 39.2% and 40.2% of our total assets as of

December 31, 2012, 2013 and 2014 and June 30, 2015, respectively. We provide a broad range of loan products to our customers through our head office, branches and sub-branches. Substantially all of our customer loans are denominated in Renminbi. The following discussion is based on our gross loans to customers, before taking into account the related allowance for impairment losses, rather than our net loans to customers. Our loans to customers are reported net of the allowance for impairment losses on our statement of financial position.

Our gross loans to customers increased by 21.7% from RMB45,723 million as of December 31, 2012 to RMB55,630 million as of December 31, 2013, which in turn increased by 13.2% to RMB62,988 million as of December 31, 2014. As of June 30, 2015, our gross loans to customers amounted to RMB69,959 million.

Distribution of Loans by Business Line

Our loans to customers consist of corporate loans and personal loans. For a description of the loan products we offer, see "Business – Our Principal Business Lines". The following table sets forth, as of the dates indicated, our loans to customers by business line.

	As of December 31,						As of June 30,	
	2012		2013		2014		2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Corporate loans	34,458	75.4%	42,121	75.7%	46,769	74.3%	51,444	73.5%
Including: discounted bills	1,752	3.8	1,400	2.5	2,552	4.1	2,784	4.0
Personal loans	11,265	24.6	13,509	24.3	16,219	25.7	18,515	26.5
Total loans to customers	**45,723**	**100.0%**	**55,630**	**100.0%**	**62,988**	**100.0%**	**69,959**	**100.0%**

Corporate Loans

Corporate loans are the largest component of our loan portfolio, representing 75.4%, 75.7%, 74.3% and 73.5% of our total loans to customers as of December 31, 2012, 2013 and 2014 and June 30, 2015, respectively.

Distribution of Corporate Loans by Product Type

The following table sets forth, as of the dates indicated, the distribution of our corporate loans by product type. For details of each type of our corporate loans, see "Business—Our Principal Business Lines—Corporate Banking Business—Corporate Loans".

	As of December 31,						As of June 30,	
	2012		2013		2014		2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Working capital loans	22,281	64.6%	29,678	70.5%	33,138	70.8%	36,788	71.6%
Fixed asset loans	8,188	23.8	9,551	22.7	9,759	20.9	11,285	21.9
Import bill advances and export bill purchases	2,176	6.3	1,429	3.4	1,034	2.2	253	0.5
Discounted bills	1,752	5.1	1,400	3.3	2,552	5.5	2,784	5.4
Others(1)	61	0.2	63	0.1	286	0.6	334	0.6
Total corporate loans	**34,458**	**100.0%**	**42,121**	**100.0%**	**46,769**	**100.0%**	**51,444**	**100.0%**

(1) Consists primarily of advances under bank acceptances and letters of credit issued by us.

Our corporate loans increased by 22.2% from RMB34,458 million as of December 31, 2012 to RMB42,121 million as of December 31, 2013, which in turn increased by 11.0% to RMB46,769 million as of December 31, 2014. As of June 30, 2015, our corporate loans amounted to RMB51,444 million. The continued increase in our corporate loans was primarily attributable to an increase in working capital loans, which was partially offset by a decrease in outstanding import bill advances and export bill purchases.

Working capital loans are the largest component of our corporate loans, representing 64.6%, 70.5%, 70.8% and 71.6% of our total corporate loans as of December 31, 2012, 2013 and 2014 and June 30, 2015, respectively. Our working capital loans increased by 33.2% from RMB22,281 million as of December 31, 2012 to RMB29,678 million as of December 31, 2013, which in turn increased by 11.7% to RMB33,138 million as of December 31, 2014. As of June 30, 2015, our working capital loans amounted to RMB36,788 million. The increase in our working capital loans, both in absolute terms and as a percentage of our total corporate loans, was primarily due to the increased demands from our corporate customers.

Fixed asset loans represented 23.8%, 22.7%, 20.9% and 21.9% of our total corporate loans as of December 31, 2012, 2013, 2014 and June 30, 2015, respectively. Our fixed asset loans increased by 16.6% from RMB8,188 million as of December 31, 2012 to RMB9,551 million as of December 31, 2013, which in turn increased by 2.2% to RMB9,759 million as of December 31, 2014. As of June 30, 2015, our fixed asset loans amounted to RMB11,285 million. The increase in our fixed asset loans was primarily due to our corporate customers' increased funding needs to finance their technology upgrades and investments in equipment.

Import bill advances and export bill purchases represented 6.3%, 3.4%, 2.2% and 0.5% of our total corporate loans as of December 31, 2012, 2013, 2014 and June 30, 2015, respectively. Import bill advances and export bill purchases decreased by 34.3% from RMB2,176 million as of December 31, 2012 to RMB1,429 million as of December 31, 2013, which in turn decreased by 27.6% to RMB1,034 million as of December 31, 2014. As of June 30, 2015, our import bill advances and export bill purchases amounted to RMB253 million. The decrease in our import bill advances and export bill purchases, both in absolute terms and as a percentage of our total corporate loans, was primarily because we reduced our credit exposure to commodities trading companies in light of the price volatility in commodities.

Discounted bills represented 5.1%, 3.3%, 5.5% and 5.4% of our total corporate loans as of December 31, 2012, 2013, 2014 and June 30, 2015, respectively. As of the same dates, our discounted bills amounted to RMB1,752 million, RMB1,400 million, RMB2,552 million and RMB2,784 million, respectively, of which bank acceptance notes represented 99.1%, 93.7%, 100.0% and 99.6%, respectively.

Other corporate loans consist primarily of advances under our bank acceptances and letters of credit issued by us. Other corporate loans amounted to RMB61 million, RMB63 million, RMB286 million and RMB334 million as of December 31, 2012, 2013 and 2014 and June 30, 2015, respectively. The increase in other corporate loans was primarily due to certain customers' failure to perform their obligations when due as a result of their tightened liquidity during the slowdown in economic growth.

Distribution of Corporate Loans by Industry

Our corporate loans consist of loans to corporate customers in a broad range of industries. The following table sets forth, as of the dates indicated, the distribution of our corporate loans by industry classification.

	As of December 31,						As of June 30,	
	2012		2013		2014		2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Manufacturing	12,547	36.4%	16,307	38.7%	18,992	40.6%	19,365	37.6%
Wholesale and retail	5,780	16.8	6,642	15.8	7,053	15.1	7,626	14.8
Construction	2,993	8.7	4,079	9.7	5,132	11.0	5,838	11.3
Leasing and commercial services	2,036	5.9	3,146	7.5	3,313	7.1	4,042	7.9
Water, environment and public utility management	644	1.9	1,151	2.7	2,006	4.3	3,871	7.5
Real estate	4,479	13.0	3,924	9.3	3,520	7.5	3,222	6.3
Production and supply of electric and heating power, gas and water	2,137	6.2	2,202	5.2	1,598	3.4	2,272	4.4
Transportation, storage and postal services	1,151	3.3	1,430	3.4	1,505	3.2	1,774	3.4
Agriculture, forestry, animal husbandry and fishery	525	1.5	613	1.5	662	1.4	752	1.5
Others(1)	2,166	6.3	2,627	6.2	2,988	6.4	2,682	5.3
Total corporate loans	**34,458**	**100.0%**	**42,121**	**100.0%**	**46,769**	**100.0%**	**51,444**	**100.0%**

(1) Consists primarily of (i) information transmission, software and information technology services, (ii) scientific studies and technology services, (iii) residential services, maintenance and other services, and (iv) mining.

The aggregate balance of loans to our corporate borrowers in (i) manufacturing, (ii) wholesale and retail, (iii) construction, (iv) leasing and commercial services, and (v) water, environment and public utility management, being the top five industries in terms of our aggregate corporate loan exposure as of June 30, 2015, collectively represented 69.7%, 74.4%, 78.1% and 79.1% of our total corporate loans as of December 31, 2012, 2013 and 2014 and June 30, 2015, respectively.

Our loans to corporate borrowers in the manufacturing industry represented 36.4%, 38.7%, 40.6% and 37.6% of our total corporate loans as of December 31, 2012, 2013 and 2014 and June 30, 2015, respectively, being the largest component of our corporate loans.

Our loans to corporate borrowers in the construction industry increased by 36.3% from RMB2,993 million as of December 31, 2012 to RMB4,079 million as of December 31, 2013, which in turn increased by 25.8% to RMB5,132 million as of December 31, 2014. As of June 30, 2015, our loans to corporate borrowers in the construction industry amounted to RMB5,838 million. Our loans to corporate borrowers in the construction industry represented 8.7%, 9.7%, 11.0% and 11.3% of our total corporate loans as of December 31, 2012, 2013 and 2014 and June 30, 2015, respectively. The increase in our loans to corporate borrowers in the construction industry, both in absolute terms and as a percentage of our total corporate loans, primarily reflected our increased credit support to contractors for affordable housing and infrastructure projects sponsored by the PRC government.

Our loans to corporate customers in the water, environment and public utility industry represented 1.9%, 2.7%, 4.3% and 7.5% of our total corporate loans as of December 31, 2012, 2013 and 2014 and June 30, 2015, respectively. These corporate loans increased by 78.7% from RMB644 million as of December 31, 2012 to RMB1,151 million as of December 31, 2013, which in turn increased by 74.3% to RMB2,006 million as of December 31, 2014. As of June 30, 2015, these loans further increased to RMB3,871 million. The continued increase in our loans to corporate customers in the water, environment and public utility industry, both in absolute terms and as a percentage of our total corporate loans, primarily reflected our increased credit support to the corporate borrowers in the public works, environment protection and water infrastructure industries.

Our loans to corporate borrowers in the real estate industry decreased by 12.4% from RMB4,479 million as of December 31, 2012 to RMB3,924 million as of December 31, 2013, which in turn decreased by 10.3% to RMB3,520 million as of December 31, 2014. As of June 30, 2015, our loans to corporate borrowers in the real estate industry amounted to RMB3,222 million. Our loans to corporate borrowers in the real estate industry represented 13.0%, 9.3%, 7.5% and 6.3% of our total corporate loans as of December 31, 2012, 2013 and 2014 and June 30, 2015, respectively. The decrease in our loans to borrowers in the real estate industry, both in absolute terms and as a percentage of our total corporate loans, resulted primarily from our efforts to limit our credit exposure to this industry in light of the increased credit risk associated with this industry arising from the downturn and the increased inventories in the real estate markets.

Distribution of Corporate Loans by Exposure Size

The following table sets forth, as of the dates indicated, distribution of our corporate loan exposure to borrowers by size.

	As of December 31,						As of June 30,	
	2012		2013		2014		2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Up to RMB50 million	14,658	42.5%	19,270	45.8%	22,945	49.1%	22,988	44.6%
Over RMB50 million to RMB100 million	6,508	18.9	6,785	16.1	7,130	15.2	7,909	15.4
Over RMB100 million to RMB300 million	10,911	31.7	10,848	25.8	9,021	19.3	10,891	21.2
Over RMB300 million	2,381	6.9	5,218	12.3	7,673	16.4	9,656	18.8
Total corporate loans	**34,458**	**100.0%**	**42,121**	**100.0%**	**46,769**	**100.0%**	**51,444**	**100.0%**

Corporate loans of up to RMB50 million increased, as a percentage of our total corporate loans, from 42.5% as of December 31, 2012 to 45.8% as of December 31, 2013, which in turn increased to 49.1% as of December 31, 2014. Corporate loans up to RMB50 million increased by 31.5% from RMB14,658 million as of December 31, 2012 to RMB19,270 million as of December 31, 2013, which in turn increased by 19.1% to RMB22,945 million as of December 31, 2014. As of June 30, 2015, our corporate loans of up to RMB50 million amounted to RMB22,988 million. The increase in these corporate loans was primarily due to our increased focus on loans to small and medium enterprises and the expansion of our small and medium enterprise customer base.

Corporate loans of over RMB300 million more than doubled from RMB2,381 million (representing 6.9% of our total corporate loans) as of December 31, 2012 to RMB5,218 million (representing 12.3% of our total corporate loans) as of December 31, 2013, which in turn increased by 47.0% to RMB7,673 million (representing 16.4% of our total corporate loans) as of December 31,

2014. As of June 30, 2015, our loans of over RMB300 million amounted to RMB9,656 million, representing 18.8% of our total corporate loans. The continued increase in our loans of over RMB300 million, both in absolute terms and as a percentage of our total corporate loans, was primarily due to our efforts to cater to the credit demands of our large local corporate customers to finance construction projects, such as the new railway station in Qingdao and the facilities for the 2014 Qingdao International Horticultural Exposition.

Distribution of Corporate Loans by Size of Corporate Borrowers

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

	As of December 31,						As of June 30,	
	2012		2013		2014		2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Large enterprises[(1)]	6,839	19.9%	9,496	22.5%	10,143	21.7%	11,391	22.1%
Medium enterprises[(1)]	12,720	36.9	15,242	36.2	13,878	29.7	15,323	29.8
Small enterprises[(1)]	10,729	31.1	13,939	33.1	19,471	41.6	21,119	41.1
Micro enterprises[(1)]	4,170	12.1	3,444	8.2	3,277	7.0	3,611	7.0
Total corporate loans	**34,458**	**100.0%**	**42,121**	**100.0%**	**46,769**	**100.0%**	**51,444**	**100.0%**

(1) The classification criteria for large, medium, small and micro enterprises are set forth in the Provisions on the Standards for the Classification of Small and Medium Enterprises.

Our loans to large enterprises increased by 38.9% from RMB6,839 million as of December 31, 2012 to RMB9,496 million as of December 31, 2013, which in turn increased by 6.8% to RMB10,143 million as of December 31, 2014. As of June 30, 2015, our loans to large enterprises amounted to RMB11,391 million, representing 22.1% of our total corporate loans. The balance of our loans to large enterprises continued to increase, while, as a percentage of our total corporate loans our loans to large enterprises remained relatively stable.

Our SME loans include corporate loans to medium, small and micro enterprises. Our SME loans increased by 18.1% from RMB27,619 million as of December 31, 2012 to RMB32,625 million as of December 31, 2013, which in turn increased by 12.3% to RMB36,626 million as of December 31, 2014. As of June 30, 2015, our SME loans amounted to RMB40,053 million, representing 77.9% of our total corporate loans. The increase in our SME loans resulted primarily from our efforts to expand our lending business for small and medium enterprises and the rapid growth in our small and medium enterprise customer base. Particularly, loans to small enterprises represented 31.1%, 33.1%, 41.6% and 41.1% of the total corporate loans as of December 31, 2012, 2013 and 2014 and June 30, 2015, respectively.

Personal Loans

As of December 31, 2012, 2013 and 2014 and June 30, 2015, our personal loans represented 24.6%, 24.3%, 25.7% and 26.5% of our total loans to customers.

Our personal loans increased by 19.9% from RMB11,265 million as of December 31, 2012 to RMB13,509 million as of December 31, 2013, which in turn increased by 20.1% to RMB16,219 million as of December 31, 2014. As of June 30, 2015, our personal loans amounted to RMB18,515 million. The continued increase in our personal loans, both in absolute terms and as a percentage of our total loans to customers, was primarily due to our continued efforts to grow our retail banking business.

Distribution of Personal Loans by Product Type

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

	As of December 31,						As of June 30,	
	2012		2013		2014		2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Personal business loans	6,520	57.9%	7,754	57.4%	7,693	47.4%	7,044	38.0%
Residential mortgage loans	3,131	27.8	3,951	29.2	6,351	39.2	9,089	49.1
Personal consumption loans	1,084	9.6	979	7.3	1,217	7.5	1,443	7.8
Others[(1)]	530	4.7	825	6.1	958	5.9	939	5.1
Total personal loans	**11,265**	**100.0%**	**13,509**	**100.0%**	**16,219**	**100.0%**	**18,515**	**100.0%**

(1) Consists primarily of personal commercial property loans and personal commercial vehicle loans.

Personal business loans represented 57.9%, 57.4%, 47.4% and 38.0% of our personal loans as of December 31, 2012, 2013 and 2014 and June 30, 2015, respectively. Our personal business loans increased by 18.9% from RMB6,520 million as of December 31, 2012 to RMB7,754 million as of December 31, 2013, primarily due to our focus on lending to small and micro enterprise owners to finance their business. Our personal business loans remained relatively stable at RMB7,693 million as of December 31, 2014 as compared to December 31, 2013. Personal business loans decreased by 8.4% from RMB7,693 million as of December 31, 2014 to RMB7,044 million as of June 30, 2015, primarily reflecting our efforts to moderate credit exposure to certain personal business loan customers with relatively high credit risk in light of the slowdown in economic growth.

Residential mortgage loans represented 27.8%, 29.2%, 39.2% and 49.1% of our personal loans as of December 31, 2012, 2013 and 2014 and June 30, 2015, respectively. Our residential mortgage loans increased by 26.2% from RMB3,131 million as of December 31, 2012 to RMB3,951 million as of December 31, 2013, which in turn increased by 60.7% to RMB6,351 million as of December 31, 2014. As of June 30, 2015, our residential mortgage loans amounted to RMB9,089 million. The continued increase in our residential mortgage loans was primarily due to our efforts to grow our residential mortgage loan portfolio, which requires less capital charge and brings us a stable retail customer base, as well as our increased marketing efforts on residential mortgage loans following the PRC government's announcement of new policies on the real estate markets in 2014.

Personal consumption loans represented 9.6%, 7.3%, 7.5% and 7.8% of our personal loans as of December 31, 2012, 2013 and 2014 and June 30, 2015, respectively. Our personal consumption loans decreased by 9.7% from RMB1,084 million as of December 31, 2012 to RMB979 million as of December 31, 2013, primarily attributable to a decrease in our personal automobile loans. Our personal consumption loans increased by 24.3% from RMB979 million as of December 31, 2013 to RMB1,217 million as of December 31, 2014, primarily due to our marketing efforts to cater to the consumption needs of our retail customers and their families. As of June 30, 2015, our personal consumption loans amounted to RMB1,443 million.

Distribution of Personal Loans by Exposure Size

The following table sets forth, as of the dates indicated, the distribution of our outstanding personal loans by exposure size.

	As of December 31,						As of June 30,	
	2012		2013		2014		2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Up to RMB300,000	1,942	17.2%	2,184	16.2%	2,750	17.0%	2,534	13.7%
Over RMB300,000 to RMB1,000,000	2,656	23.6	3,239	24.0	5,018	30.9	7,193	38.8
Over RMB1,000,000 to RMB5,000,000	4,970	44.1	6,348	46.9	6,672	41.1	6,850	37.0
Over RMB5,000,000	1,697	15.1	1,738	12.9	1,779	11.0	1,938	10.5
Total personal loans	**11,265**	**100.0%**	**13,509**	**100.0%**	**16,219**	**100.0%**	**18,515**	**100.0%**

Our personal loans of over RMB5 million decreased, as a percentage of our total personal loans, from 15.1% as of December 31, 2012 to 12.9% as of December 31, 2013, which in turn decreased to 11.0% as of December 31, 2014. Our personal loans of over RMB5 million amounted to RMB1,938 million as of June 30, 2015, representing 10.5% of our total personal loans. The continued decrease in our personal loans of over RMB5 million as a percentage of our total personal loans was primarily because we seek to diversify credit risk by limiting our exposure to retail customers with large loan balances.

Distribution of Loans to Customers by Geographical Region

We classify loans geographically based on the location of the branch or sub-branch that originated the loan. Our branches or sub-branches generally originate loans to borrowers located in the same geographical areas. The following table sets forth, as of the dates indicated, the distribution of our loans to customers by geographic region.

	As of December 31,						As of June 30,	
	2012		2013		2014		2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Qingdao	37,994	83.1%	41,629	74.9%	44,160	70.1%	45,979	65.7%
Ji'nan	5,854	12.8	7,858	14.1	6,390	10.1	7,944	11.4
Dongying	1,875	4.1	3,588	6.4	6,058	9.6	7,075	10.1
Other regions(1)	—	—	2,555	4.6	6,380	10.2	8,961	12.8
Total loans to customers	**45,723**	**100.0%**	**55,630**	**100.0%**	**62,988**	**100.0%**	**69,959**	**100.0%**

(1) Consists of loans originated by our branches and sub-branches in Weihai, Zibo, Dezhou, Zaozhuang and Yantai.

Our loans to customers originated in Qingdao are the largest component of our total loans to customers, representing 83.1%, 74.9%, 70.1% and 65.7% of our total loans to customers as of December 31, 2012, 2013 and 2014 and June 30, 2015, respectively. Our loans to customers originated in Qingdao increased by 9.6% from RMB37,994 million as of December 31, 2012 to RMB41,629 million as of December 31, 2013, which in turn increased by 6.1% to RMB44,160 million as of December 31, 2014. As of June 30, 2015, our loans to customers originated in Qingdao amounted to RMB45,979 million. Our loans to customers originated in Qingdao decreased as a percentage of our total loans to customers, primarily due to the expansion of our branch and sub-branch network outside of Qingdao, where customer demands for funding are strong, while the balance of these loans continued to grow.

Our loans to customers originated by our branch and sub-branches in Ji'nan increased by 34.2% from RMB5,854 million as of December 31, 2012 to RMB7,858 million as of December 31, 2013, primarily reflecting the overall business growth of our Ji'nan branch. Our loans to customers originated by our branch and sub-branches in Ji'nan decreased by 18.7% from RMB7,858 million as of December 31, 2013 to RMB6,390 million as of December 31, 2014, primarily due to our shift in the business coverage of certain regions to newly opened branches located in those regions, whose business was previously covered by our Ji'nan branch. As of June 30, 2015, our loans to customers originated by branches and sub-branches in Ji'nan amounted to RMB7,944 million.

We opened a branch in Dongying in August 2011. Our loans to customers originated by our branch and sub-branches in Dongying increased by 91.4% from RMB1,875 million as of December 31, 2012 to RMB3,588 million as of December 31, 2013, which in turn increased by 68.8% to RMB6,058 million as of December 31, 2014. As of June 30, 2015, our loans to customers originated by our branch and sub-branches in Dongying amounted to RMB7,075 million. The continued increase in our loans to customers originated by our branch and sub-branches in Dongying, both in absolute terms and as a percentage of our total loans, was primarily attributable to the robust financing demands from enterprises and individuals in Dongying.

Our loans to customers originated by branches and sub-branches in other regions increased significantly both in absolute terms and as a percent of our total loans from December 31, 2013 to December 31, 2014, primarily because we opened branches and sub-branches in Weihai and Zibo in 2013, and in Dezhou and Zaozhuang in 2014, and started to book loan business in those years. As of June 30, 2015, our loans to customers originated by branches and sub-branches in other regions amounted to RMB8,961 million.

Distribution of Loans by Collateral

A substantial amount of our loans to customers are secured by mortgages, pledges or guarantees. As of December 31, 2012, 2013 and 2014 and June 30, 2015, our loans to customer secured by mortgages, pledges or guarantees amounted to RMB42,507 million, RMB50,460 million, RMB59,436 million and RMB64,945 million, respectively, representing 93.0%, 90.7%, 94.4% and 92.8% of our total loans to customers, respectively. The following table sets forth, as of the dates indicated, the distribution of our loans to customers by type of collateral.

	As of December 31,						As of June 30,	
	2012		2013		2014		2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Loans secured by mortgages[(1)(2)]	19,834	43.4%	22,596	40.6%	26,538	42.2%	29,988	42.8%
Loans secured by pledges[(1)(3)]	4,385	9.6	4,917	8.8	6,697	10.6	7,496	10.7
Guaranteed loans[(1)]	18,288	40.0	22,947	41.3	26,201	41.6	27,461	39.3
Unsecured loans	3,216	7.0	5,170	9.3	3,552	5.6	5,014	7.2
Total loans to customers	**45,723**	**100.0%**	**55,630**	**100.0%**	**62,988**	**100.0%**	**69,959**	**100.0%**

(1) Represents the total amount of loans fully or partially secured by collateral in each category. If a loan is secured by more than one form of security interest, the allocation is based on the primary form of security interest.

(2) Represents security interests in certain assets other than monetary assets, such as buildings and fixtures, construction in progress, land use rights, machines, equipment and vehicles, without taking possession.

(3) Represents security interests in intangible assets or monetary assets, such as movable assets, certificates of deposit, financial instruments, intellectual properties and interests in future cash flows, by taking possession of or registering against such assets.

Our unsecured loans were RMB3,216 million, RMB5,170 million, RMB3,552 million and RMB5,014 million as of December 31, 2012, 2013 and 2014 and June 30, 2015, respectively, representing 7.0%, 9.3%, 5.6% and 7.2% of our total loans to customers as of the same dates, respectively. Our unsecured loans are granted only to corporate customers with high credit ratings, sound corporate governance, solid financial indicators and sufficient operating cash flows, and retail customers with stable employment and residence, relatively high income and good credit records. After the loan disbursements, we continue to monitor the stability of the operation of and the adequacy of cash flows of corporate borrowers, and the stability of the employment, residence and income as well as the credit records and social reputation of retail borrowers. See "Risk Management—Credit Risk Management—Credit Risk Management for Corporate Loans" and "Risk Management—Credit Risk Management—Credit Risk Management for Personal Loans".

Borrowers Concentration

In accordance with applicable PRC banking laws and regulations, we are subject to a lending limit of 10% of our regulatory capital to any single borrower. See "Supervision and Regulation—Other Operational and Risk Management Ratios". The following table sets forth, as of the date indicated, our loan exposure to our ten largest single borrowers, all of which were classified as normal at that date.

	As of June 30, 2015				
	Industry	**Amount**	**% of total loans**	**% of regulatory capital[(1)]**	**Classification**
	(in millions of RMB, except percentages)				
Borrower A	Water, environment and public utility management	960	1.37%	6.33%	Normal
Borrower B	Water, environment and public utility management	700	1.00	4.62	Normal
Borrower C	Water, environment and public utility management	640	0.91	4.22	Normal
Borrower D	Leasing and commercial services	610	0.87	4.02	Normal
Borrower E	Manufacturing	600	0.86	3.96	Normal
Borrower F	Leasing and commercial services	600	0.86	3.96	Normal
Borrower G	Leasing and commercial services	550	0.79	3.63	Normal
Borrower H	Manufacturing	512	0.73	3.38	Normal
Borrower I	Manufacturing	480	0.69	3.17	Normal
Borrower J	Construction	458	0.65	3.02	Normal
Total		**6,110**	**8.73%**	**40.31%**	

(1) Represents loan balances as a percentage of our regulatory capital, calculated in accordance with the requirements of the Capital Administration Measures and based on our financial statements prepared in accordance with PRC GAAP. For a calculation of our regulatory capital as of June 30, 2015, see "Financial Information—Capital Resources—Capital Adequacy".

In accordance with applicable PRC banking guidelines, we are subject to a credit limit of 15% of our regulatory capital to any single group customer. The following table sets forth, as of the date indicated, our credit exposure to our ten largest group customers, all of which were classified as normal at that date.

	As of June 30, 2015				
	Industry	Amount	% of total loans	% of regulatory capital(1)	Classification
	(in millions of RMB, except percentages)				
Group A	Real estate	1,352	1.94%	8.92%	Normal
Group B	Construction	1,154	1.65	7.61	Normal
Group C	Public administration, social security and social organization	1,000	1.43	6.60	Normal
Group D	Construction	800	1.14	5.28	Normal
Group E	Manufacturing	762	1.09	5.03	Normal
Group F	Wholesale and retail	753	1.08	4.97	Normal
Group G	Construction	741	1.06	4.89	Normal
Group H	Public administration, social security and social organization	710	1.01	4.68	Normal
Group I	Water, environment and public utility management	700	1.00	4.62	Normal
Group J	Water, environment and public utility management	700	1.00	4.62	Normal
Total		**8,672**	**12.40%**	**57.22%**	

(1) Represents credit exposure as a percentage of our regulatory capital, calculated in accordance with the requirements of the Capital Administration Measures and based on our financial statements prepared in accordance with PRC GAAP. For a calculation of our regulatory capital as of June 30, 2015, see "Financial Information—Capital Resources—Capital Adequacy".

Maturity Profile of Loan Portfolio

The following table sets forth, as of the date indicated, our loan products by remaining maturity.

	As of June 30, 2015					
	Due in 3 months or less	Due over 3 months up to 12 months	Due over 1 year up to 5 years	Due in more than 5 years	Overdue(1)	Total
	(in millions of RMB)					
Corporate loans						
Working capital loans	8,679	22,207	4,380	177	1,345	36,788
Fixed asset loans	184	1,018	5,547	3,958	578	11,285
Import bill advance and export bill purchase	253	—	—	—	—	253
Discounted bills	1,065	1,719	—	—	—	2,784
Others(2)	—	—	—	—	334	334
Subtotal	10,181	24,944	9,927	4,135	2,257	51,444
Personal loans						
Personal business loans	1,523	4,004	689	478	350	7,044
Residential mortgage loans	—	22	263	8,724	80	9,089
Personal consumption loans	122	369	714	195	43	1,443
Others(3)	3	52	151	725	8	939
Subtotal	1,648	4,447	1,817	10,122	481	18,515
Total	**11,829**	**29,391**	**11,744**	**14,257**	**2,738**	**69,959**

(1) Includes loans on which principal or interest is overdue.
(2) Consists primarily of advances under bank acceptances and letters of credit issued by us.
(3) Consists primarily of personal commercial property loans and personal commercial vehicle loans.

As of June 30, 2015, our corporate loans with remaining maturities of up to one year amounted to RMB35,125 million, representing 68.3% of our total corporate loans, primarily because a majority of our corporate loan portfolio consisted of working capital loans, discounted bills and import bill advances and export bill purchases, whose tenors are generally no longer than one year. Our personal loans with remaining maturities of more than five years amounted to RMB10,122 million as of June 30, 2015, representing 54.7% of our total personal loans, consisting primarily of residential mortgage loans and other personal loans (consisting primarily of personal commercial property loans and personal commercial vehicle loans), which are generally of longer tenors.

Loan Interest Rate Profile

In recent years, PBoC has implemented a series of initiatives to gradually liberalize interest rates and establish a market-based interest rate regime. On July 20, 2013, PBoC removed the floor rates for RMB-denominated loans (except for interest rates on residential mortgage loans) and allowed commercial banks in China to set interest rates based on commercial considerations. During the Track Record Period, we adopted a dynamic approach to repricing our loans with floating interest rates and closely reviewed our loan repricing policies. Currently, a significant portion of our loans to customers with contract maturities up to one year are of fixed interest rates, while our loans to customers with contract maturities of over one year are generally of floating interest rates. We generally reset interest rates on these loans on an annual basis.

Interest rates on residential mortgage loans have been set at no less than 70% of the PBoC benchmark lending rate since October 27, 2008. Interest rates on residential mortgage loans to second-home buyers are required to be no less than 110% of the PBoC benchmark lending rate since April 17, 2010. See “Supervision and Regulation—Pricing of Products and Services”.

Asset Quality of Our Loan Portfolio

We measure and monitor the asset quality of our loans to customers through our loan classification system. Pursuant to the Guidelines of Risk-based Classification of Loans (《貸款風險分類指引》) issued by CBRC on July 3, 2007, the principal determinants in classifying a loan should be based on the assessment of the repayment ability of the borrower. We classify our loans using a five-category loan classification system, in accordance with CBRC’s guidelines. See “Supervision and Regulation—Loan Classification, Allowances and Write-Offs—Loan Classification”.

Loan Classification Criteria

In determining the classification of our loan portfolio, we apply a series of criteria derived from the Guidelines of Risk-based Classification of Loans (《貸款風險分類指引》). These criteria are designed to assess the likelihood of repayment by the borrower and the collectability of the principal and interest on the loan.

Corporate Loans

Our corporate loan classification criteria focus on a number of factors, to the extent applicable, including (i) the borrower’s ability to repay the loan, based on such factors as the borrower’s cash flows, financial condition, profitability and other non-financial factors affecting the borrower's repayment ability; (ii) the borrower's repayment history; (iii) the borrower's willingness to repay; (iv) the profitability of the project financed by our loans; (v) the net realizable value of any collateral and the prospect for support from any guarantor; and (vi) the enforceability of our claims. The key factors for each loan classification are listed below. This is not intended to be an exhaustive list of all factors taken into account in classifying our loans. See "Risk Management—Credit Risk Management—Credit Risk Management for Corporate Loans—Post-disbursement Management".

Normal. Loans are classified as normal only if the borrower can honor the terms of its loans and there is no sufficient reason to doubt its ability to repay principal and interest in full on a timely basis.

Special Mention. Loans should be classified as special mention if the borrower is able to service its loans with its business revenues and, when necessary, through foreclosure on collateral, although repayment may be adversely affected by specific factors, including:

- the principal or any interest payments are overdue for 90 days or less;
- the borrower is suspected of seeking to evade its repayment obligations to banks through mergers and acquisitions, reorganization or spin-offs, or there have been significant changes to the borrower's corporate structure, such as through spin-offs or leasing, contracting or joint venture arrangements adversely affecting our credit claims, or there have been material adverse changes to the borrower's principal shareholders, subsidiaries or management, or the borrower's principal shareholder has exited or been acquired, or the borrower's affiliated companies or parents or subsidiaries are involved in disputes on financial issues or litigation;
- the borrower has used the loan proceeds for the purpose inconsistent with the intended use of the proceeds;
- there have been adverse changes to the borrower's industry, or changes in the macroeconomy, the markets and the borrower's industry adversely affects the borrower's business operations and repayment ability, or significant needs for technology innovations have resulted in changes in the borrower's products or production technology;
- the borrower's key financial indicators, such as liquidity ratio, current ratio, debt to asset ratio, sales profitability ratio and inventory turnover ratio, are lower or weaker than the industry average or has seen a significant decline;
- there have occurred significant changes to the construction project financed by us, thus adversely affecting the repayment on our fixed asset loan, or an extension of the construction schedule of the infrastructure project by one year or more, or budget overruns exceeding 15% of the previous budget;
- there has been a decrease in the value of the collateral or an adverse development in the guarantor's financial condition, or we have lost control of the collateral; or
- there have occurred political instabilities or financial turmoil in the country where the exporter or importer of our trade finance loan is located.

Substandard. Loans should be classified as substandard if the borrower's ability to service its loans is in question as it cannot rely entirely on normal business revenues to repay the principal and interest, and losses may ensue even when collateral or guarantees are invoked. Loans are generally classified as substandard if any of the following circumstances arises:

- the borrower's repayment of loans made by other banks is overdue for more than 90 days and in large amounts;
- the borrower has difficulty in making payments and obtaining new funding;
- losses (expected to be up to 40% of the outstanding loan balance) may ensue even when collateral or guarantees are invoked;
- the borrower obtained the loan through unfair means, such as concealing material facts;
- the borrower is involved in significant disputes on financial interests; or
- a restructuring of the loan is required due to adverse changes in the borrower's financial condition or its ability to repay the loan.

Doubtful. Loans should be classified as doubtful if the borrower cannot repay the principal and interest in full and significant losses will need to be recognized even when collateral or guarantees are invoked. Loans in the doubtful category generally demonstrate the following characteristics:

- losses (expected to be up to 90% of the outstanding loan balance) may ensue even when collateral or guarantees are invoked;
- the borrower is unable to make payments when due and its production or operations have been suspended or partially suspended, or the infrastructure project financed by our loan has been suspended;
- the loan was extended in violation of applicable laws or regulations, which has triggered significant legal risks;
- the borrower is bankrupt or has been adjudicated by a competent court to be bankrupt, however, has failed to complete the required procedures or does not meet the applicable regulatory requirements under the bankruptcy regulations issued by the State Council and may have sought to evade repayment of the loan through bankruptcy procedures; or
- the borrower has evaded repayment of bank loans through reorganization, leasing, transfer or contracting arrangements, and the creditor bank has not asserted a claim through legal actions.

Loss. Loans should be classified as loss if only a minimal portion or no principal and interest could be recovered after all possible measures have been taken and all legal remedies have been exhausted. Corporate loans in the loss category generally demonstrate the following characteristics:

- the borrower or the guarantor has been declared bankrupt and the loan or a portion thereof remains unpaid after the liquidation process;
- serious natural disaster or unforeseen events have resulted in significant losses of the borrower without insurance coverage or the loan remains unpaid even after payment on insurance claims;
- the borrower has been terminated, closed down or dissolved and no source of funds is available to repay the loan;

- although the borrower's operations have continued, there is no market for its products and it is unable to make payments when due, has incurred significant losses and is about to fail, and there is no government bail-out intended; or
- the loan remains unpaid even after the conclusion of a judicial proceeding with respect to the borrower or the enforcement of the guarantee or foreclosure on the collateral, either because the borrower or the guarantee has no assets for enforcement, or they do not meet the qualification requirements or have ceased to be in existence, or the court ruled against us due to the lapse of the statute of limitations or the loss of important documents evidencing our credit rights.

Loans that need to be restructured should be at least classified as substandard. Restructured loans refer to loans of which the Bank amends the repayment terms under the loan contract due to deterioration of the borrower's financial position or the borrower's inability to repay the loan. The restructured loan should at least be classified as doubtful if it is still overdue after the restructuring, or the borrower is still unable to repay the loan after the restructuring.

Loans to Small or Micro Enterprises and Personal Loans

In applying the loan classification criteria to loans to small or micro enterprises and personal loans, we primarily take into account the length of time by which payments of principal or interest are overdue and the type of collateral.

The following table sets forth the five-category classification of our loans to small or micro enterprises, to which our credit exposure is up to RMB5 million, by time for which payments of the principal or interest are overdue and by type of collateral.

		Overdue by				
	Current	**1-30 days**	**31-90 days**	**91-180 days**	**181-360 days**	**Over 360 days**
Loans secured by mortgages	Normal	Special mention	Special mention	Special mention	Substandard	Doubtful
Loans secured by pledges	Normal	Special mention	Special mention	Special mention	Substandard	Doubtful
Guaranteed loans	Normal	Special mention	Special mention	Substandard	Doubtful	Loss
Unsecured loans	Normal	Special mention	Substandard	Doubtful	Doubtful	Loss

The following table sets forth the five-category classification of our on-balance sheet loans to retail customers, to whom our credit exposure is up to RMB5 million, by time for which payments of principal or interest are overdue and by type of collateral.

	Current	Overdue by 1 – 30 days	31 – 60 days	61 – 90 days	91 – 120 days	121 – 150 days	151 – 180 days	181 – 365 days	Over 365 days
Loans secured by residential mortgages	Normal	Special mention	Special mention	Special mention	Special mention	Special mention	Special mention	Substandard	Doubtful
Loans secured by mortgages on other real property[(1)]	Normal	Special mention	Special mention	Special mention	Special mention	Special mention	Substandard	Substandard	Doubtful
Loans secured by pledges	Normal	Special mention	Special mention	Special mention	Special mention	Special mention	Substandard	Substandard	Doubtful
Loans secured by mortgages on tangible assets other than real property	Normal	Special mention	Special mention	Special mention	Substandard	Substandard	Substandard	Doubtful	Doubtful
Guaranteed or unsecured loans	Normal	Special mention	Special mention	Special mention	Substandard	Substandard	Substandard	Doubtful	Loss

(1) Consists of loans secured by mortgages on real properties such as commercial outlets, office units, production facilities, warehouses and land use rights.

Distribution of Loans by Loan Classification

The following table sets forth, as of the dates indicated, the distribution of our loan portfolio by the five-category loan classification. We use the term "non-performing loans" and "impaired loans" synonymously to refer to the loans identified as "impaired loans and advances" in Note 19 to our historical financial information included in the Accountants' Report in Appendix I to this prospectus. Under our five-category loan classification system, our non-performing loans are classified as substandard, doubtful or loss, as applicable.

	As of December 31, 2012		2013		2014		As of June 30, 2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Normal	43,401	94.92%	53,725	96.58%	60,656	96.30%	66,403	94.92%
Special mention	1,974	4.32	1,488	2.67	1,614	2.56	2,722	3.89
Substandard	229	0.50	291	0.53	265	0.42	363	0.52
Doubtful	100	0.22	114	0.20	427	0.68	456	0.65
Loss	19	0.04	12	0.02	26	0.04	15	0.02
Total loans to customers	**45,723**	**100.00%**	**55,630**	**100.00%**	**62,988**	**100.00%**	**69,959**	**100.00%**
Non-performing loan ratio[(1)]		**0.76%**		**0.75%**		**1.14%**		**1.19%**

(1) Calculated by dividing total non-performing loans by gross loans to customers.

The following table sets forth, as of the dates indicated, the distribution of our loans to customers by business line and by the five-category loan classification system.

	As of December 31,						As of June 30,	
	2012		2013		2014		2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Corporate loans								
Normal	32,362	93.92%	40,505	96.17%	44,771	95.73%	48,429	94.14%
Special mention	1,807	5.24	1,316	3.12	1,451	3.10	2,410	4.68
Substandard	191	0.56	195	0.46	146	0.31	282	0.55
Doubtful	93	0.27	105	0.25	401	0.86	322	0.63
Loss	5	0.01	—	—	—	—	1	—
Subtotal	34,458	100.00%	42,121	100.00%	46,769	100.00%	51,444	100.00%
Non-performing loan ratio[(1)]		**0.84%**		**0.71%**		**1.17%**		**1.18%**
Personal loans								
Normal	11,039	98.00%	13,220	97.86%	15,885	97.95%	17,974	97.07%
Special mention	167	1.48	172	1.27	163	1.00	312	1.69
Substandard	38	0.34	96	0.71	119	0.73	81	0.44
Doubtful	7	0.06	9	0.07	26	0.16	134	0.72
Loss	14	0.12	12	0.09	26	0.16	14	0.08
Subtotal	11,265	100.00%	13,509	100.00%	16,219	100.00%	18,515	100.00%
Non-performing loan ratio[(1)]		**0.52%**		**0.87%**		**1.05%**		**1.24%**
Total loans to customers	**45,723**		**55,630**		**62,988**		**69,959**	
Non-performing loan ratio[(2)]		**0.76%**		**0.75%**		**1.14%**		**1.19%**

(1) Calculated by dividing non-performing loans in each business line by gross loans in that business line.

(2) Calculated by dividing total non-performing loans by gross loans to customers.

Our non-performing loan ratio was 0.76%, 0.75%, 1.14% and 1.19% as of December 31, 2012, 2013 and 2014 and June 30, 2015, respectively. Our non-performing loan ratio increased from 0.75% as of December 31, 2013 to 1.14% as of December 31, 2014, which in turn increased slightly to 1.19% as of June 30, 2015, reflecting the impact of the slowdown in economic growth.

Changes in Asset Quality of Our Loans

The following table sets forth, for the periods indicated, the changes in our non-performing loans.

	Amount	NPL ratio
	(in millions of RMB, except percentages)	
As of December 31, 2011	**296**	**0.86%**
Increases		
Downgrades[(1)]	200	
New loans[(2)]	16	
Decreases		
Write-offs	(65)	
Recoveries	(93)	
Upgrades	(6)	
As of December 31, 2012	**348**	**0.76%**
Increases		
Downgrades[(1)]	116	
New loans[(2)]	58	
Decreases		
Write-offs	(54)	
Recoveries	(50)	
Upgrades	(1)	
As of December 31, 2013	**417**	**0.75%**
Increases		
Downgrades[(1)]	477	
New loans[(2)]	366	
Decreases		
Write-offs	(165)	
Recoveries	(102)	
Upgrades	(27)	
Disposal	(248)	
As of December 31, 2014	**718**	**1.14%**
Increases		
Downgrades[(1)]	284	
New loans[(2)]	6	
Decreases		
Write-offs	(149)	
Recoveries	(24)	
Upgrades	(1)	
As of June 30, 2015	**834**	**1.19%**

(1) Represents downgrades of loans classified as normal or special mention at the end of last period to non-performing classifications.
(2) Represents downgrades of new loans made in the current period.

Our new loans downgraded to non-performing classifications consist primarily of advances under off-balance sheet bank acceptances and letters of credits issued by us. Such off-balance sheet advances are booked under loans to customers on our statement of financial position when they become non-performing.

The following table sets forth, for the periods indicated, the migration ratios of our loan portfolio, calculated in accordance with the applicable CBRC requirements.

	For the year ended December 31,			For the six months ended June 30,
	2012	2013	2014	2015
Normal and special mention loans(1)	0.94%	0.39%	0.92%	0.51%
Normal loans(2)	4.54%	0.73%	3.19%	3.62%
Special mention loans(3)	11.81%	3.83%	11.91%	12.10%
Substandard loans(4)	30.56%	8.58%	51.31%	48.17%
Doubtful loans(5)	—	2.77%	1.06%	0.91%

(1) Represents migration ratios of loans classified as normal or special mention which were downgraded to non-performing loans. The migration ratio of normal and special mention loans represents a fraction, the numerator of which equals the sum of (i) loans classified as normal at the beginning date of the period and downgraded to non-performing classifications at the end of the period, and (ii) loans classified as special mention at the beginning date of the period and downgraded to non-performing classifications at the end of the period, and the denominator of which equals the sum of (i) the difference between the balance of normal loans at the beginning date of the period and the decrease, in the period, in the loans which were classified as normal at the beginning date of the period, and (ii) the difference between the balance of special mention loans at the beginning date of the period and the decrease in such loans in the period.

(2) Represents migration ratio of loans classified as normal which were downgraded to other classifications. The normal loan migration ratio represents a fraction, the numerator of which equals loans classified as normal at the beginning date of the period and downgraded to lower classifications at the end of the period, and the denominator of which equals the difference between the balance of normal loans at the beginning date of the period and the decrease in such loans in the period.

(3) Represents migration ratio of loans classified as special mention which were downgraded to non-performing loans. The special mention loan migration ratio represents a fraction, the numerator of which equals the loans which were classified as special mention at the beginning date of the period and downgraded to non-performing loans at the end of the period, and the denominator of which equals the difference between the balance of special mention loans at the beginning date of the period and the decrease in such loans in the period.

(4) Represents migration ratio of loans classified as substandard which were downgraded to doubtful or loss. The substandard loan migration ratio represents a fraction, the numerator of which equals the loans classified as substandard at the beginning date of the period and downgraded to doubtful or loss at the end of the period, and the denominator of which equals the difference between the balance of substandard loans at the beginning date of the period and the decrease in such loans in the period.

(5) Represents migration ratio of loans classified as doubtful which were downgraded to loss. The doubtful loan migration ratio represents a fraction, the numerator of which equals the loans classified as doubtful at the beginning date of the period and downgraded to loss at the end of the period, and the denominator of which equals the difference between the balance of doubtful loans at the beginning date of the period and the decrease in such loans in the period.

Distribution of Non-Performing Loans by Product Type

The following table sets forth, as of the dates indicated, the distribution of our non-performing loans by product type.

	As of December 31,									As of June 30,		
	2012			2013			2014			2015		
	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)
	(in millions of RMB, except percentages)											
Corporate loans												
Working capital loans	181	52.0%	0.81%	236	56.5%	0.80%	299	41.7%	0.90%	333	39.9%	0.91%
Fixed asset loans	1	0.3	0.01	—	—	—	—	—	—	—	—	—
Import bill advance and export bill purchase	46	13.2	2.11	2	0.5	0.14	—	—	—	—	—	—
Discounted bills	—	—	—	—	—	—	—	—	—	—	—	—
Others(2)	61	17.5	100.00	62	14.9	98.41	248	34.5	86.71	272	32.6	81.44
Subtotal	289	83.0	0.84	300	71.9	0.71	547	76.2	1.17	605	72.5	1.18
Personal loans												
Personal business loans	22	6.3	0.34	79	19.0	1.02	121	16.9	1.57	173	20.9	2.46
Residential mortgage loans	17	4.9	0.54	17	4.1	0.43	24	3.3	0.38	32	3.8	0.35
Personal consumption loans	19	5.5	1.75	20	4.8	2.04	25	3.5	2.05	22	2.6	1.52
Others(3)	1	0.3	0.19	1	0.2	0.12	1	0.1	0.10	2	0.2	0.21
Subtotal	59	17.0	0.52	117	28.1	0.87	171	23.8	1.05	229	27.5	1.24
Total non-performing loans	**348**	**100.0%**	**0.76%**	**417**	**100.0%**	**0.75%**	**718**	**100.0%**	**1.14%**	**834**	**100.0%**	**1.19%**

(1) Calculated by dividing non-performing loans in each product type by gross loans in that product type.
(2) Consists primarily of advances under bank acceptances and letters of credit issued by us.
(3) Consists primarily of personal commercial property loans and personal commercial vehicle loans.

The non-performing loan ratio for our corporate loans decreased from 0.84% as of December 31, 2012 to 0.71% as of December 31, 2013, notwithstanding a 3.8% increase in our non-performing corporate loans from RMB289 million as of December 31, 2012 to RMB300 million as of December 31, 2013. The increase in our non-performing corporate loans was primarily due to an increase in our non-performing working capital loans from RMB181 million as of December 31, 2012 to RMB236 million as of December 31, 2013, reflecting the adverse impact of the slowdown in economic growth and the industrial transformation on the financial condition of certain corporate borrowers.

Our non-performing corporate loans increased by 82.3% from RMB300 million (representing non-performing loan ratio of 0.71%) as of December 31, 2013 to RMB547 million (representing non-performing loan ratio of 1.17%) as of December 31, 2014, primarily due to increases in other non-performing corporate loans from RMB62 million as of December 31, 2013 to RMB248 million as of December 31, 2014 and in our non-performing working capital loans from RMB236 million as of December 31, 2013 to RMB299 million as of December 31, 2014. The increase in other non-performing corporate loans was primarily attributable to an increase in advances under our off-balance sheet bank acceptances and letters of credit due to the default by certain trade finance customers whose financial conditions deteriorated as a result of the adverse impact of the slowdown in economic growth on their business. The increase in our non-performing working capital loans also reflected the impact of the slowdown in economic growth on the credit status of our corporate customers.

As of June 30, 2015, our non-performing corporate loans amounted to RMB605 million, representing a non-performing loan ratio of 1.18%.

The non-performing loan ratio for our personal loans increased from 0.52% as of December 31, 2012 to 0.87% as of December 31, 2013, which in turn increased to 1.05% as of December 31, 2014. Our non-performing personal loans amounted to RMB229 million as of June 30, 2015, representing a non-performing loan ratio of 1.24%. The increases in our non-performing personal loans and the non-performing loan ratio for our personal loans were primarily due to the increase in our non-performing personal business loans, reflecting the operational difficulties of certain small and micro business owners during the slowdown in economic growth.

Distribution of Non-Performing Corporate Loans by Industry

The following table sets forth, as of the dates indicated, the distribution of our non-performing loans to corporate customers by industry.

	As of December 31,									As of June 30,		
	2012			2013			2014			2015		
	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)
	(in millions of RMB, except percentages)											
Manufacturing	168	58.2%	1.34%	195	64.9%	1.20%	182	33.3%	0.96%	228	37.7%	1.18%
Wholesale and retail	87	30.1	1.51	60	20.0	0.90	306	56.0	4.34	304	50.2	3.99
Construction	5	1.7	0.17	5	1.7	0.12	50	9.1	0.97	50	8.3	0.86
Real Estate	13	4.5	0.29	9	3.0	0.23	—	—	—	—	—	—
Leasing and commercial services	2	0.7	0.10	2	0.7	0.06	4	0.7	0.12	3	0.5	0.07
Production and supply of electric and heating power, gas and water	14	4.8	0.66	2	0.7	0.09	—	—	—	—	—	—
Transportation, storage and postal services	—	—	—	—	—	—	—	—	—	—	—	—
Water, environment and public utility management	—	—	—	—	—	—	—	—	—	15	2.5	0.39
Agriculture, forestry, animal husbandry and fishery	—	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	27	9.0	1.03	5	0.9	0.17	5	0.8	0.19
Total non-performing corporate loans	**289**	**100.0%**	**0.84%**	**300**	**100.0%**	**0.71%**	**547**	**100.0%**	**1.17%**	**605**	**100.0%**	**1.18%**

(1) Calculated by dividing non-performing loans to corporate customers in each industry by gross loans to corporate customers in that industry.

Our non-performing corporate loans consist primarily of non-performing loans to corporate borrowers in the wholesale and retail industry and the manufacturing industry. As of June 30, 2015, our non-performing loans to corporate borrowers in the wholesale and retail industry and manufacturing industry represented 50.2% and 37.7% of our total non-performing corporate loans, respectively.

The non-performing loan ratio for our corporate loans in the wholesale and retail industry was 1.51%, 0.90%, 4.34% and 3.99% as of December 31, 2012, 2013 and 2014 and June 30, 2015, respectively. The increase in the non-performing loan ratio for our corporate loans to borrowers in the wholesale and retail industry in 2014 primarily reflected the deterioration of the financial conditions of certain borrowers in the commodities trading industry in light of the slowdown in economic growth.

The non-performing loan ratio for corporate loans to borrowers in the manufacturing industry was 1.34%, 1.20%, 0.96% and 1.18% as of December 31, 2012, 2013 and 2014 and June 30, 2015, respectively. The increase in the non-performing loan ratio for our corporate loans in the manufacturing industry in 2015 primarily reflected the impact of the slowdown in economic growth on the operational and financial conditions of certain borrowers in the manufacturing industry.

As of December 31, 2014 and June 30, 2015, we did not have any non-performing loans to corporate borrowers in the real estate industry.

Distribution of Non-Performing Loans by Geographical Region

The following table sets forth, as of the dates indicated, the distribution of our non-performing loans by geographical region.

	As of December 31,									As of June 30,		
	2012			2013			2014			2015		
	Amount	% of total	NPL ratio[(1)]	Amount	% of total	NPL ratio[(1)]	Amount	% of total	NPL ratio[(1)]	Amount	% of total	NPL ratio[(1)]
	(in millions of RMB, except percentages)											
Qingdao	328	94.3%	0.86%	401	96.2%	0.96%	639	89.0%	1.45%	636	76.3%	1.38%
Other regions	20	5.7	0.26	16	3.8	0.11	79	11.0	0.42	198	23.7	0.83
Total non-performing loans	**348**	**100.0%**	**0.76%**	**417**	**100.0%**	**0.75%**	**718**	**100.0%**	**1.14%**	**834**	**100.0%**	**1.19%**

(1) Calculated by dividing non-performing loans in each region by total loans in that region.

Our non-performing loans as of December 31, 2012, 2013 and 2014 and June 30, 2015 were primarily originated in Qingdao because most of our loans in these years were originated in Qingdao and our branches and sub-branches in other cities were relatively newly opened. For the distribution of loans to customers by geographical region, see "—Loans to Customers—Distribution of Loans to Customers by Geographical Region".

Distribution of Non-Performing Loans by Collateral

The following table sets forth, as of the dates indicated, the distribution of our non-performing loans by types of collateral.

	As of December 31,									As of June 30,		
	2012			2013			2014			2015		
	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)
	(in millions of RMB, except percentages)											
Corporate loans												
Loans secured by mortgages(2)(3)	131	37.6%	1.07%	104	24.9%	0.77%	264	36.7%	1.82%	310	37.1%	2.01%
Loans secured by pledges(2)(4)	—	—	—	12	2.9	0.29	—	—	—	—	—	—
Guaranteed loans(2)	158	45.4	1.04	182	43.6	0.93	223	31.1	0.96	265	31.8	1.07
Unsecured loans	—	—	—	2	0.5	0.04	60	8.4	1.89	30	3.6	0.68
Subtotal	289	83.0	0.84	300	71.9	0.71	547	76.2	1.17	605	72.5	1.18
Personal loans												
Loans secured by mortgages(2)(3)	44	12.7	0.58	51	12.3	0.56	113	15.8	0.94	143	17.2	0.98
Loans secured by pledges(2)(4)	—	—	—	—	—	—	—	—	—	—	—	—
Guaranteed loans(2)	15	4.3	0.48	66	15.8	1.95	52	7.2	1.80	80	9.6	3.05
Unsecured loans	—	—	—	—	—	—	6	0.8	1.62	6	0.7	1.02
Subtotal	59	17.0	0.52	117	28.1	0.87	171	23.8	1.05	229	27.5	1.24
Total non-performing loans	**348**	**100.0%**	**0.76%**	**417**	**100.0%**	**0.75%**	**718**	**100.0%**	**1.14%**	**834**	**100.0%**	**1.19%**

(1) Calculated by dividing non-performing loans secured by each type of collateral by gross loans in that type of collateral.
(2) Represents the total amount of loans fully or partially secured by collateral in each category. If a loan is secured by more than one form of security interest, the allocation is based on the primary form of security interest.
(3) Represents security interests in certain assets other than monetary assets, such as buildings and fixtures, construction in progress, land use rights, machines, equipment and vehicles, without taking possession.
(4) Represents security interests in intangible assets or monetary assets, such as movable assets, certificates of deposit, financial instruments, intellectual properties and interests in future cash flows, by taking possession of or registering against such assets.

Distribution of Non-performing Corporate Loans by Collateral

As of December 31, 2012, we did not have any unsecured non-performing corporate loan. Our unsecured non-performing corporate loans increased from RMB2 million (representing a non-performing loan ratio of 0.04%) as of December 31, 2013 to RMB 60 million (representing a non-performing loan ratio of 1.89%) as of December 31, 2014, primarily due to defaults by two customers from our factoring business in 2014. As of June 30, 2015, our unsecured non-performing corporate loans amounted to RMB30 million, representing a non-performing loan ratio of 0.68%.

Our non-performing corporate loans secured by mortgages decreased by 20.6% from RMB131 million (representing a non-performing loan ratio of 1.07%) as of December 31, 2012 to RMB104 million (representing a non-performing loan ratio of 0.77%) as of December 31, 2013, primarily because we recovered certain loans through foreclosure and wrote off certain other such loans meeting the write-off criteria under the applicable rules. Our non-performing corporate loans secured by mortgages increased by 153.8% from RMB104 million (representing a non-performing loan ratio of

0.77%) as of December 31, 2013 to RMB264 million (representing a non-performing loan ratio of 1.82%) as of December 31, 2014, primarily due to defaults by certain commodities trading companies in repayment of their loans secured by land use rights and properties, reflecting their operational difficulties and deteriorated financial condition. As of June 30, 2015, our non-performing corporate loans secured by mortgages increased to RMB310 million (representing a non-performing loan ratio of 2.01%), primarily attributable to our loans to certain small and medium enterprises in the manufacturing industry which experienced operating difficulties.

Our guaranteed non-performing corporate loans increased by 15.2% from RMB158 million as of December 31, 2012 to RMB182 million as of December 31, 2013, primarily attributable to a non-performing loan to a micro loan company secured by guarantee. Our guaranteed non-performing corporate loans increased by 22.5% from RMB182 million as of December 31, 2013 to RMB223 million as of December 31, 2014, primarily due to an increase in non-performing loans to borrowers in the construction industry and the mining machinery manufacturing industry, which were primarily secured by guarantees. As of June 30, 2015, our guaranteed non-performing corporate loans increased to RMB265 million (representing a non-performing loan ratio of 1.07%), primarily attributable to our loans to certain small and medium enterprises which experienced operating difficulties.

Distribution of Non-performing Personal Loans by Collateral

Our non-performing personal loans secured by mortgages increased by 15.9% from RMB44 million (representing a non-performing loan ratio of 0.58%) as of December 31, 2012 to RMB51 million (representing a non-performing loan ratio of 0.56%) as of December 31, 2013, which in turn increased by 121.6% to RMB113 million (representing a non-performing loan ratio of 0.94%) as of December 31, 2014. As of June 30, 2015, our non-performing personal loans secured by mortgages amounted to RMB143 million, representing a non-performing loan ratio of 0.98%. The increase in our non-performing personal loans secured by mortgages from December 31, 2012 to June 30, 2015 primarily reflected the operational difficulties encountered by certain small and micro business owners in light of the slowdown in economic growth.

Our guaranteed non-performing personal loans increased from RMB15 million (representing a non-performing loan ratio of 0.48%) as of December 31, 2012 to RMB66 million (representing a non-performing loan ratio of 1.95%) as of December 31, 2013. Our guaranteed non-performing personal loans decreased by 21.2% from RMB66 million (representing a non-performing loan ratio of 1.95%) as of December 31, 2013 to RMB52 million (representing a non-performing loan ratio of 1.80%) as of December 31, 2014. As of June 30, 2015, our guaranteed non-performing personal loans amounted to RMB80 million, representing a non-performing loan ratio of 3.05%. The increases in our guaranteed non-performing personal loans from December 31, 2012 to December 31, 2013 and from December 31, 2014 to June 30, 2015 primarily reflected the impact of the slowdown in economic growth on the operational conditions of small and micro business owners.

Ten Largest Non-performing Borrowers

The following table sets forth, as of the date indicated, our borrowers with the ten largest non-performing loan balances outstanding.

	As of June 30, 2015				
	Industry	Outstanding principal amount	Classification	% of total non-performing loans	% of regulatory capital[(1)]
	(in millions of RMB, except percentages)				
Borrower A	Wholesale and retail	100	Doubtful	11.99%	0.66%
Borrower B	Construction	50	Doubtful	6.00	0.33
Borrower C	Wholesale and retail	46	Doubtful	5.52	0.30
Borrower D	Wholesale and retail	31	Doubtful	3.72	0.20
Borrower E	Manufacturing	30	Substandard	3.60	0.20
Borrower F	Wholesale and retail	30	Substandard	3.60	0.20
Borrower G	Manufacturing	25	Substandard	3.00	0.16
Borrower H	Manufacturing	20	Doubtful	2.40	0.13
Borrower I	Wholesale and retail	20	Doubtful	2.40	0.13
Borrower J	Manufacturing	15	Doubtful	1.80	0.10
Total		**367**		**44.03%**	**2.41%**

(1) Represents loan balance as a percentage of our regulatory capital, calculated in accordance with the requirements of the Capital Administration Measures and based on our financial statements prepared in accordance with PRC GAAP. For a calculation of our regulatory capital as of June 30, 2015, see "Financial Information—Capital Resources—Capital Adequacy".

Loan Aging Schedule

The following table sets forth, as of the dates indicated, our loan aging schedule.

	As of December 31,						As of June 30,	
	2012		2013		2014		2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Current loans	45,279	99.0%	55,154	99.1%	61,557	97.7%	67,221	96.0%
Loans past due for								
Up to 3 months[(1)]	139	0.3	128	0.2	742	1.2	1,793	2.6
Over 3 months up to 6 months[(1)]	23	0.1	38	0.1	201	0.3	263	0.4
Over 6 months up to 1 year[(1)]	84	0.2	105	0.2	261	0.4	358	0.5
Over 1 year up to 3 years[(1)]	140	0.3	158	0.3	96	0.2	294	0.5
Over 3 years[(1)]	58	0.1	47	0.1	131	0.2	30	—
Total loans to customers	**45,723**	**100.0%**	**55,630**	**100.0%**	**62,988**	**100.0%**	**69,959**	**100.0%**
Loans past due for 91 days or more	**305**	**0.7%**	**348**	**0.7%**	**689**	**1.1%**	**945**	**1.4%**

(1) Represents the principal amount of the loans on which principal or interest is overdue.

Allowance for Impairment Losses on Loans to Customers

We assess our loans for impairment, determine a level of allowance for impairment losses, and recognize any related provisions in accordance with the requirements of IAS39. See "Financial Information—Critical Accounting Estimates and Judgments—Impairment Losses on Loans to Customers and Financial Investments (Available-for-sale Financial Assets, Held-to-maturity Investment and Investment Classified as Receivables)" and Note 2(4)(ii) to our historical financial information included in the Accountants' Report in Appendix I to this prospectus.

Our loans are reported net of the allowance for impairment losses on our statement of financial position. We perform individual assessments to determine the allowance for impairment losses against individually significant loans, which consist primarily of corporate loans, if there is objective evidence of impairment as a result of events occurring after the initial recognition of loans which affect the estimated future cash flows of the loans.

The allowance for impairment losses on loans is measured as the difference between the carrying amounts and the estimated recoverable amounts of the loans. The estimated recoverable amounts are the present value of the estimated future cash flows of the loans, including, among other things, the recoverable value of the collateral.

Individually significant loans for which no evidence of impairment has been individually identified consist of loans classified as normal and special mention, which are assessed collectively for the purpose of determining the allowance for impairment losses. Homogeneous groups of loans that are not considered individually significant are also collectively assessed for the purpose of determining the allowance for impairment losses. The allowance for impairment losses of the collectively assessed loans is determined primarily based on our historical loss experience in similar portfolios and on current economic conditions.

For a description of our methodologies in calculating the estimated recoverable amount of loans, see "Financial Information—Critical Accounting Estimates and Judgments—Impairment Losses on Loans to Customers and Financial Investments (Available-for-sale Financial Assets, Held-to-maturity Investment and Investment Classified as Receivables)" and Note 2(4) to our historical financial information included in the Accountants' Report in Appendix I to this prospectus.

Distribution of Allowance for Impairment Losses by Loan Classification

The following table sets forth, as of the dates indicated, the allocation of our allowance for impairment losses by loan classification category.

	As of December 31,									As of June 30,		
	2012			2013			2014			2015		
	Amount	% of total	Allowance to loans[(1)]	Amount	% of total	Allowance to loans[(1)]	Amount	% of total	Allowance to loans[(1)]	Amount	% of total	Allowance to loans[(1)]
	(in millions of RMB, except percentages)											
Normal	894	72.9%	2.06%	1,225	80.4%	2.28%	1,250	71.9%	2.06%	1,176	64.5%	1.77%
Special mention	177	14.5	8.97	135	8.8	9.07	152	8.7	9.42	269	14.7	9.88
Substandard	69	5.6	30.13	78	5.1	26.80	54	3.1	20.38	81	4.4	22.31
Doubtful	68	5.5	68.00	74	4.9	64.91	259	14.9	60.66	282	15.5	61.84
Loss	19	1.5	100.00	12	0.8	100.00%	25	1.4	96.15	15	0.9	100.00
Total allowance	**1,227**	**100.0%**	**2.68%**	**1,524**	**100.0%**	**2.74%**	**1,740**	**100.0%**	**2.76%**	**1,823**	**100.0%**	**2.61%**

(1) Calculated by dividing allowance for impairment losses on loans in each category by the gross loans in that category.

The following table sets forth, as of the dates indicated, the allocation of our allowance for impairment losses by business line and by loan classification category.

	As of December 31,									As of June 30,		
	2012			2013			2014			2015		
	Amount	% of total	Allowance to loans(1)	Amount	% of total	Allowance to loans(1)	Amount	% of total	Allowance to loans(1)	Amount	% of total	Allowance to loans(1)
	(in millions of RMB, except percentages)											
Corporate loans												
Normal	852	69.5%	2.63%	1,156	75.9%	2.85%	1,191	68.4%	2.66%	1,127	61.8%	2.33%
Special mention	89	7.3	4.93	119	7.8	9.04	134	7.7	9.24	228	12.5	9.46
Substandard	58	4.7	30.37	57	3.7	29.23	33	1.9	22.60	66	3.6	23.40
Doubtful	63	5.1	67.74	68	4.5	64.76	241	13.9	60.10	193	10.6	59.94
Loss	5	0.4	100.00	—	—	—	—	—	—	1	0.1	100.00
Subtotal	1,067	87.0	3.10	1,400	91.9	3.32	1,599	91.9	3.42	1,615	88.6	3.14
Personal loans												
Normal	42	3.4	0.38	69	4.5	0.52	59	3.5	0.37	49	2.7	0.27
Special mention	88	7.2	52.69	16	1.0	9.30	18	1.0	11.04	41	2.2	13.14
Substandard	11	0.9	28.95	21	1.4	21.88	21	1.2	17.65	15	0.8	18.52
Doubtful	5	0.4	71.43	6	0.4	66.67	18	1.0	69.23	89	4.9	66.42
Loss	14	1.1	100.00	12	0.8	100.00	25	1.4	96.15	14	0.8	100.00
Subtotal	160	13.0	1.42	124	8.1	0.92	141	8.1	0.87	208	11.4	1.12
Total allowance	**1,227**	**100.0%**	**2.68%**	**1,524**	**100.0%**	**2.74%**	**1,740**	**100.0%**	**2.76%**	**1,823**	**100.0%**	**2.61%**

(1) Calculated by dividing the allowance for impairment losses on loans in each category by the total loans in that category.

Changes to Allowance for Impairment Losses

We report net provisions for impairment losses on loans to customers on our income statement. See "Financial Information—Results of Operation for the Six Months Ended June 30, 2014 and 2015—Provisions for Impairment Losses" and "Financial Information—Results of Operation for the Years Ended December 31, 2012, 2013 and 2014—Provisions for Impairment Losses".

The following table sets forth, for the periods indicated, the changes to the allowance for impairment losses on loans to customers.

	As of or for the period ended December 31/ June 30,
	(in millions of RMB)
As of December 31, 2011	**1,007**
Gross charge for the year	327
Write-backs	(44)
Net charge for the year	283
Unwinding of discount(1)	(13)
Write-off	(65)
Recoveries of loans written-off and others	15
As of December 31, 2012	**1,227**
Gross charge for the year	358
Write-backs	(11)
Net charge for the year	347
Unwinding of discount(1)	(17)
Write-off	(54)
Recoveries of loans written-off and others	21
As of December 31, 2013	**1,524**
Gross charge for the year	375
Write-backs	(15)
Net charge for the year	360
Unwinding of discount(1)	(21)
Write-off	(165)
Recoveries of loans written-off and others	42
As of December 31, 2014	**1,740**
Gross charge for the period	224
Write-backs	(4)
Net charge for the period	220
Unwinding of discount(1)	(13)
Write-off	(149)
Recoveries of loans written-off and others	25
As of June 30, 2015	**1,823**

(1) Represents the interest income accrued on impaired loans as a result of subsequent increases in their present values due to the passage of time.

Our allowance for impairment losses on loans to customers increased by 24.2% from RMB1,227 million as of December 31, 2012 to RMB1,524 million as of December 31, 2013, which in turn increased by 14.2% to RMB1,740 million as of December 31, 2014. As of June 30, 2015, our allowance for impairment losses on loans to customers amounted to RMB1,823 million. The continued increase in our allowance for impairment losses on loans to customers was primarily due to the overall growth of our loan portfolio and, for the increase from December 31, 2013 to June 30, 2015, our increased non-performing loans.

We made gross provisions for impairment losses on loans to customers of RMB327 million, RMB358 million, RMB375 million and RMB224 million in 2012, 2013 and 2014 and for the six months ended June 30, 2015, respectively, in accordance with the requirements of IAS39 and the accounting policy disclosed on pages I-14 to I-15 of this prospectus. We make assumptions to determine the input parameters applied in our assessment model, based on both historical loss experience and current economic conditions. In 2012 and 2013, we took into consideration of the outlook of increasing non-performing loans amid the slowdown in economic growth, reflected such outlook in relevant input parameters, and recognized loan impairment accordingly to reflect the incurred losses that had not been identified on an individual basis. Since 2014, the outlook on the increase in our non-performing loans has stabilized, which has been reflected in our recognition of loan impairment accordingly. As of December 31, 2012, 2013 and 2014 and June 30, 2015, our allowance for impairment losses on loans to customers was RMB1,227 million, RMB1,524 million, RMB1,740 million and RMB1,823 million, respectively, and our allowance coverage ratio was 352.59%, 365.47%, 242.34% and 218.59%, respectively. The decrease in our allowance coverage ratio was primarily due to a year-on-year increase in the balance of our non-performing loans, which amounted to RMB348 million, RMB417 million RMB718 million and RMB834 million as of December 31, 2012, 2013 and 2014 and June 30, 2015, respectively. The decrease in our allowance coverage ratio is largely consistent with the industry. According to CBRC, China banking industry's allowance coverage ratio was 295.51%, 282.70%, 232.06% and 198.39% as of December 31, 2012, 2013, 2014 and June 30, 2015, respectively. Notwithstanding the foregoing, our allowance coverage ratio remained well above the regulatory requirement of 150% 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》) issued by CBRC on July 27, 2011. Furthermore, as of December 31, 2012, 2013 and 2014 and June 30, 2015, our allowance to gross loan ratio was 2.68%, 2.74%, 2.76% and 2.61%, respectively, which remained relatively stable, and was above the regulatory requirement of 2.5% under the above-referenced Administrative Measures for Loan Loss Allowance of Commercial Banks and also higher than all City Commercial Banks listed in Hong Kong.

Distribution of Allowance for Impairment Losses by Product Type

The following table sets forth, as of the dates indicated, the distribution of our allowance for impairment losses on loans to customers by product type.

	As of December 31,									As of June 30,		
	2012			2013			2014			2015		
	Amount	% of total	Allowance to NPLs(1)	Amount	% of total	Allowance to NPLs(1)	Amount	% of total	Allowance to NPLs(1)	Amount	% of total	Allowance to NPLs(1)
	(in millions of RMB, except percentages)											
Corporate loans												
Working capital loans	675	55.1%	372.93%	957	62.8%	405.51%	1,076	61.8%	359.87%	1,083	59.5%	325.23%
Fixed asset loans	274	22.3	27,400.00	385	25.3	N/A	384	22.1	N/A	398	21.8	N/A
Import bill advance and export bill purchase	93	7.6	202.17	32	2.1	1,600.00	18	1.0	N/A	4	0.2	N/A
Discounted bills	—	—	—	—	—	—	—	—	—	—	—	—
Others(2)	25	2.0	40.98	26	1.7	41.94	121	7.0	48.79	130	7.1	47.79
Subtotal	1,067	87.0	369.20	1,400	91.9	466.67	1,599	91.9	292.32	1,615	88.6	266.94
Personal loans												
Personal Business loans	92	7.4	418.18	76	5.0	96.20	88	5.0	72.73	136	7.4	78.61
Residential mortgage loans	40	3.3	235.29	29	1.9	170.59	33	1.9	137.50	47	2.6	146.88
Personal consumption loans	24	2.0	126.32	14	0.9	70.00	15	0.9	60.00	20	1.1	90.91
Others(3)	4	0.3	400.00	5	0.3	500.00	5	0.3	500.00	5	0.3	250.00
Subtotal	160	13.0	271.19	124	8.1	105.98	141	8.1	82.46	208	11.4	90.83
Total allowance	**1,227**	**100.0%**	**352.59%**	**1,524**	**100.0%**	**365.47%**	**1,740**	**100.0%**	**242.34%**	**1,823**	**100.0%**	**218.59%**

(1) Calculated by dividing allowance for impairment losses on loans in each product type by non-performing loans in that product type.
(2) Consists primarily of advances under bank acceptances and letters of credit issued by us.
(3) Consists primarily of personal commercial property loans and personal commercial vehicle loans.

Distribution of Allowance for Impairment Losses on Corporate Loans by Industry

The following table sets forth, as of the dates indicated, the allowance for impairment losses on corporate loans by industry.

	As of December 31,									As of June 30,		
	2012			2013			2014			2015		
	Amount	% of total	Allowance to NPLs(1)	Amount	% of total	Allowance to NPLs(1)	Amount	% of total	Allowance to NPLs(1)	Amount	% of total	Allowance to NPLs(1)
	(in millions of RMB, except percentages)											
Manufacturing	347	32.5%	206.55%	519	37.1%	266.15%	575	36.0%	315.93%	589	36.5%	258.33%
Wholesale and retail	194	18.2	222.99	202	14.4	336.67	347	21.7	113.40	315	19.5	103.62
Construction	127	11.9	2,540.00	192	13.7	3,840.00	144	9.0	288.00	151	9.3	302.00
Real estate	176	16.5	1,353.85	220	15.7	2,444.44	182	11.4	N/A	157	9.7	N/A
Leasing and commercial services	69	6.5	3,450.00	105	7.5	5,250.00	105	6.6	2,625.00	122	7.6	4,066.67
Production and supply of electric and heating power, gas and water	36	3.4	257.14	40	2.9	2,000.00	26	1.6	N/A	46	2.8	N/A
Transportation, storage and postal services	19	1.8	N/A	25	1.8	N/A	32	2.0	N/A	35	2.2	N/A
Water, environment and public utility management	17	1.6	N/A	21	1.5	N/A	79	4.9	N/A	118	7.3	786.67
Agriculture, forestry, animal husbandry and fishery	8	0.7	N/A	9	0.6	N/A	13	0.8	N/A	16	1.0	N/A
Others	74	6.9	N/A	67	4.8	248.15	96	6.0	1,920.00	66	4.1	1,320.00
Total allowance for corporate loans	**1,067**	**100.0%**	**369.20%**	**1,400**	**100.0%**	**466.67%**	**1,599**	**100.0%**	**292.32%**	**1,615**	**100.0%**	**266.94%**

(1) Calculated by dividing allowance for impairment losses on loans to corporate customers in each industry by non-performing loans to corporate customers in that industry.
(2) Consists primarily of (i) telecommunication, software and information technology services, (ii) scientific studies and technology services, (iii) residential services, maintenance and other services, and (iv) mining.

Distribution of Allowance for Impairment Losses by Geographical Region

The following table sets forth, as of the dates indicated, the allocation of our allowance for impairment losses by geographical region.

	As of December 31,									As of June 30,		
	2012			2013			2014			2015		
	Amount	% of total	Allowance to NPLs(1)	Amount	% of total	Allowance to NPLs(1)	Amount	% of total	Allowance to NPLs(1)	Amount	% of total	Allowance to NPLs(1)
	(in millions of RMB, except percentages)											
Qingdao	1,057	86.1%	322.26%	1,233	81.0%	307.48%	1,261	72.5%	197.34%	1,242	68.1%	195.28%
Ji'nan	153	12.5	765.00	176	11.5	1,100.00	216	12.4	654.55	256	14.0	281.32
Dongying	17	1.4	N/A	61	4.0	N/A	109	6.3	N/A	116	6.4	1,054.55
Other regions(2)	—	—	N/A	54	3.5	N/A	154	8.8	334.78	209	11.5	217.71
Total allowance	**1,227**	**100.0%**	**352.59%**	**1,524**	**100.0%**	**365.47%**	**1,740**	**100.0%**	**242.34%**	**1,823**	**100.0%**	**218.59%**

(1) Calculated by dividing allowance for impairment losses on loans in each region by non-performing loans originated in that region.
(2) Consists of allowances for impairment losses on loans in Weihai, Zibo, Dezhou, Zaozhuang and Yantai.

Investment Securities and Other Financial Assets

Investment securities and other financial assets are another important component of our assets, representing 23.3%, 33.6%, 39.2% and 41.3% of our total assets as of December 31, 2012, 2013 and 2014 and June 30, 2015, respectively.

Our investment securities and other financial assets consist primarily of debt securities, asset management plans, trust fund plans, and certain other types of financial assets.

	As of December 31,						As of June 30,	
	2012		2013		2014		2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Debt securities	22,840	96.4%	25,261	55.3%	33,548	54.8%	32,332	46.1%
Asset management plans	—	—	18,793	41.2	17,803	29.0	19,857	28.4
Trust fund plans	400	1.7	1,500	3.3	9,658	15.8	9,190	13.1
Wealth management products issued by financial institutions	382	1.6	—	—	—	—	1,019	1.5
Beneficiary rights in margin financing	—	—	—	—	—	—	6,029	8.6
Beneficiary certificates	—	—	—	—	—	—	1,524	2.2
Investment funds	50	0.2	60	0.1	261	0.4	61	0.1
Equity investments	23	0.1	23	0.1	23	0.0	23	0.0
Total investment securities and other financial assets, gross	**23,695**	**100.0%**	**45,637**	**100.0%**	**61,293**	**100.0%**	**70,035**	**100.0%**
Allowance for impairment losses	—		—		(50)		(70)	
Total investment securities and other financial assets, net	**23,695**		**45,637**		**61,243**		**69,965**	

Our total investment securities and other financial assets almost doubled from RMB23,695 million as of December 31, 2012 to RMB45,637 million as of December 31, 2013, primarily because we added trust fund plans and asset management plans into our investment portfolio. Our gross investment securities and other financial assets, before taking into account the related allowance for impairment losses, increased by 34.3% from RMB45,637 million as of December 31, 2013 to RMB61,293 million as of December 31, 2014, primarily due to increases in our holding of debt securities and trust fund plans. As of June 30, 2015, our gross investment securities and other financial assets amounted to RMB70,035 million. As of December 31, 2014 and June 30, 2015, our allowance for impairment losses on investments classified as receivables was RMB50 million and RMB70 million, respectively. The following discussion is based on our gross investment securities and other financial assets before taking into account the allowance for impairment losses. Our investment securities and other financial assets are reported net of the allowance for impairment losses on our statement of financial position.

Debt Securities

Debt securities are the largest component of our investment securities and other financial assets, representing 96.4%, 55.3%, 54.8% and 46.1% of our investment securities and other financial asset portfolio as of December 31, 2012, 2013 and 2014 and June 30, 2015, respectively. Our debt securities consist primarily of debt securities issued by the PRC government, PRC policy banks, PRC banks and financial institutions, and PRC corporate issuers. All of the debt securities we held as of December 31, 2012, 2013 and 2014 and June 30, 2015 were denominated in Renminbi. The following table sets forth, as of the dates indicated, the components of our debt securities.

	As of December 31,						As of June 30,	
	2012		2013		2014		2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
PRC government bonds	1,606	7.0%	2,521	10.0%	3,183	9.5%	5,477	16.9%
Debt securities issued by PRC policy banks	12,375	54.2	12,998	51.4	13,247	39.5	12,641	39.2
Debt securities issued by PRC banks and other financial institutions	5,842	25.6	6,643	26.3	12,489	37.2	9,834	30.4
Debt securities issued by PRC corporate issuers	3,017	13.2	3,099	12.3	4,629	13.8	4,380	13.5
Total debt securities	**22,840**	**100.0%**	**25,261**	**100.0%**	**33,548**	**100.0%**	**32,332**	**100.0%**

Debt securities increased by 10.6% from RMB22,840 million as of December 31, 2012 to RMB25,261 million as of December 31, 2013, primarily due to increases in our holding in the PRC government bonds, debt securities issued by PRC banks and other financial institutions, and debt securities issued by PRC policy banks. Our holding of debt securities increased by 32.8% from RMB25,261 million as of December 31, 2013 to RMB33,548 million as of December 31, 2014, primarily due to an increase in our holding of certificates of interbank deposit and debt securities issued by PRC banks and other financial institutions. As of June 30, 2015, our holding of debt securities amounted to RMB32,332 million.

Debt securities issued by PRC policy banks are the largest component of our debt securities portfolio, representing 54.2%, 51.4%, 39.5% and 39.2% of our total debt securities portfolio as of December 31, 2012, 2013 and 2014 and June 30, 2015, respectively. Our holding of debt securities issued by PRC policy banks remained effectively stable at RMB12,375 million, RMB12,998 million, RMB13,247 million and RMB12,641 million as of December 31, 2012, 2013 and 2014 and June 30, 2015, respectively.

Debt securities issued by PRC banks and other financial institutions increased by 13.7% from RMB5,842 million as of December 31, 2012 to RMB6,643 million as of December 31, 2013, which in turn increased by 88.0% to RMB12,489 million as of December 31, 2014. The continued increase in our holding of debt securities issued by PRC banks and other financial institutions was primarily due to our increased investment in certificates of interbank deposit and financial bonds issued by commercial banks in 2014, as these debt securities are of relatively lower risk and relatively higher yields. As of June 30, 2015, we held debt securities issued by PRC banks and other financial institutions of RMB9,834 million.

The following table sets forth, as of the date indicated, the balance of our debt securities portfolio by remaining maturity.

	As of June 30, 2015					
	Due in less than 1 month	Due between 1 to 3 months	Due between 3 to 12 months	Due over 1 year up to 5 years	Due in more than 5 years	Total
	(in millions of RMB)					
Government bonds	—	59	114	1,829	3,475	5,477
Bonds issued by PRC policy banks	—	100	3,064	7,820	1,657	12,641
Bonds issued by PRC banks and other financial institutions	7	300	850	5,689	2,988	9,834
Debt securities issued by corporate issuers	—	50	998	2,376	956	4,380
Total debt securities	**7**	**509**	**5,026**	**17,714**	**9,076**	**32,332**

The following table sets forth, as of the dates indicated, a breakdown of our debt securities between fixed interest rates and floating interest rates.

	As of December 31,						As of June 30,	
	2012		2013		2014		2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Fixed interest rates	21,391	93.7%	24,093	95.4%	32,223	96.1%	31,263	96.7%
Floating interest rates	1,449	6.3	1,168	4.6	1,325	3.9	1,069	3.3
Total debt securities	**22,840**	**100.0%**	**25,261**	**100.0%**	**33,548**	**100.0%**	**32,332**	**100.0%**

Asset Management Plans

Asset management plans consist primarily of investment products managed by securities companies with negotiated deposits, bank acceptance bills and entrusted creditor's rights as underlying assets. We did not hold any asset management plans as of December 31, 2012. As of December 31, 2013 and 2014 and June 30, 2015, our holding of asset management plans was RMB18,793 million, RMB17,803 million and RMB19,857 million, respectively, representing 41.2%, 29.0% and 28.4% of our total investment securities and other financial assets, respectively.

Trust Fund Plans

Trust fund plans consist primarily of trust plans set up for single beneficiaries or collective trust plans with loans as underlying assets. Our holding of trust fund plans represented 1.7%, 3.3%, 15.8% and 13.1% of our total investment securities and other financial assets as of December 31, 2012, 2013 and 2014 and June 30, 2015, respectively. Our holding of trust fund plans increased significantly from RMB400 million as of December 31, 2012 to RMB1,500 million as of December 31, 2013, which in turn increased significantly to RMB9,658 million as of December 31, 2014. Our increased holding of trust fund plans primarily reflected our efforts to diversify, and seek higher returns on, our investment portfolio. As of June 30, 2015, our holding of trust fund plans amounted to RMB9,190 million.

Wealth Management Products Issued by Financial Institutions

Wealth management products issued by financial institutions consist primarily of wealth management products issued by other commercial banks. We held wealth management products issued by financial institutions of RMB382 million as of December 31, 2012 and RMB1,019 million as of June 30, 2015. We did not hold any wealth management products issued by financial institutions as of December 31, 2013 and 2014.

Beneficiary Rights in Margin Financing and Beneficiary Certificates

Beneficiary rights in margin financing are income rights corresponding to the creditor's rights arising from securities companies' margin financing loans to their customers. Beneficiary certificates are debt instruments issued by securities companies with agreed-upon returns. For details on these financial assets, see "Business—Our Principal Business Lines—Financial Market Business—Investment Business—Investments in Other Debt Instruments Issued by Financial Institutions". We began to invest in these financial assets in 2015. As of June 30, 2015, our holding of beneficiary rights in margin financing and beneficiary certificates amounted to RMB6,029 million and RMB1,524 million, respectively, representing 8.6% and 2.2% of our investment securities and other financial asset portfolio, respectively.

Investment Funds

Our investment fund portfolio consists primarily of (i) our investment of RMB50 million in an investment program jointly launched with Bank of Nanjing on the interbank market in 2012, (ii) our investment of RMB10 million in a venture cooperative fund of Asia Financial Cooperation Association in 2013 and (iii) our investment of RMB200 million in a money market fund product, *Huoqibao* (活期寶), managed by GF Fund Management Co., Ltd. in 2014, which we disposed of in the first half of 2015.

Equity Investments

Our equity investments consist primarily of Renminbi-denominated unlisted equity investments in China UnionPay, Shandong City Commercial Banks Alliance, and the Clearing Center for City Commercial Banks. Our equity investments remained stable from December 31, 2012 to June 30, 2015 at RMB23 million.

Distribution of Investment Securities and Other Financial Assets by Investment Intention

Our investment securities and other financial assets are classified into (i) financial assets at fair value through profit or loss, (ii) available-for-sale financial assets, (iii) held-to-maturity investments, and (iv) investments classified as receivables, primarily based on our investment intentions. Financial assets at fair value through profit or loss are (i) financial assets held for trading purposes and (ii) financial assets we designated upon initial recognition to be carried at fair value through profit or loss in accordance with IAS 39. Held-to-maturity investments are non-derivative investments with fixed or determinable payments and fixed maturities which we intend to and are able to hold to maturity. Investments classified as receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market or are not actively traded. Available-for-sale financial assets are non-derivative financial assets that are not designated or classified as financial assets at fair value through profit or loss, held-to maturity investments, or investments classified as receivables.

The following table sets forth, as of the dates indicated, the distribution of our investment securities and other financial assets by our investment intention. For further details on the components of each category of our investment securities and other financial assets, see Notes 17 and 20 to our historical financial information included in the Accountants' Report in Appendix I to this prospectus.

	As of December 31,						As of June 30,	
	2012		2013		2014		2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Financial assets at fair value through profit or loss	284	1.2%	184	0.4%	190	0.3%	293	0.4%
Available-for-sale financial assets	9,486	40.0	6,077	13.3	14,123	23.1	10,601	15.2
Held-to-maturity investments	13,363	56.4	18,906	41.4	19,721	32.2	21,729	31.1
Investments classified as receivables	562	2.4	20,470	44.9	27,209	44.4	37,342	53.3
Total	**23,695**	**100.0%**	**45,637**	**100.0%**	**61,243**	**100.0%**	**69,965**	**100.0%**

Our financial assets at fair value through profit or loss consist primarily of medium-term notes issued by PRC corporate entities and debt securities issued by PRC banks and other financial institutions. Our financial assets at fair value through profit or loss decreased by 35.2% from RMB284 million as of December 31, 2012 to RMB184 million as of December 31, 2013, primarily because we disposed of part of these assets at gain in 2013. These financial assets remained effectively stable at RMB184 million and RMB190 million as of December 31, 2013 and 2014, respectively. As of June 30, 2015, these financial assets increased to RMB293 million, primarily attributable to our purchases of debt securities issued by PRC banks and other financial institutions for trading purposes.

Our available-for-sale financial assets consist primarily of debt securities issued by the PRC government, PRC policy banks, PRC banks and other financial institutions and PRC corporate entities, as well as trust fund plans, investment funds, wealth management products issued by financial institutions, and equity investments. Our available-for-sale financial assets decreased by 35.9% from RMB9,486 million as of December 31, 2012 to RMB6,077 million as of December 31, 2013, primarily because certain bonds matured and we also disposed of certain bonds in our available-for-sale financial assets portfolio. Our available-for-sale financial assets more than doubled from RMB6,077 million as of December 31, 2013 to RMB14,123 million as of December 31, 2014, primarily due to our increased investment in certificates of interbank deposit, financial bonds issued by commercial banks, asset backed securities and debt securities issued by corporate issuers. As of June 30, 2015, these financial assets decreased to RMB10,601 million, primarily because certain certificates of interbank deposit matured and we disposed of certain other available-for-sale financial assets.

Our held-to-maturity investments consist primarily of debt securities issued by the PRC government, PRC policy banks, PRC banks and financial institutions and PRC corporate entities. Our held-to-maturity investments increased by 41.5% from RMB13,363 million as of December 31, 2012 to RMB18,906 million as of December 31, 2013, primarily due to our purchases of PRC government bonds and debt securities issued by PRC policy banks, commercial banks and other financial institutions, and classified them as held-to-maturity investments. Our held-to-maturity investments increased by 4.3% from RMB18,906 million as of December 31, 2013 to RMB19,721 million as of December 31, 2014, which in turn increased to RMB21,729 million as of June 30, 2015, primarily attributable to our increased investments in the PRC municipal bonds.

Our investments classified as receivables consist of asset management plans, trust fund plans, unsold allotments of certificated PRC government bonds and saving treasury bonds that we underwrote, beneficiary rights in margin financing, beneficiary certificates and wealth management products issued by financial institutions. Our investments classified as receivables increased significantly from RMB562 million as of December 31, 2012 to RMB20,470 million as of December 31, 2013, primarily because we added asset management plans and trust fund plans to our investment portfolio. Our investments classified as receivables increased by 32.9% from RMB20,470 million as of December 31, 2013 to RMB27,209 million as of December 31, 2014, primarily due to an increase in our holding of trust fund plans. As of June 30, 2015, our investments classified as receivables further increased to RMB37,342 million, primarily because we added beneficiary rights in margin financing of RMB6,029 million, beneficiary certificates of RMB1,524 million and wealth management products issued by financial institutions of RMB1,019 million to our investments classified as receivables.

Distribution of Investment Securities and Other Financial Assets by Remaining Maturities

The table below sets forth, as of the date indicated, the distribution of our investment securities and other financial assets by remaining maturities.

	As of June 30, 2015						
	Due in 1 month or less	Due over 1 month up to 3 months	Due over 3 months up to 12 months	Due over 1 year up to 5 years	Due in more than 5 years	Undated	Total
	(in millions of RMB)						
Financial assets at fair value through profit or loss	—	—	102	191	—	—	293
Available-for-sale financial assets	317	50	1,453	6,903	1,855	23	10,601
Held-to-maturity investments	—	450	3,457	10,602	7,220	—	21,729
Investments classified as receivables	2,907	4,770	10,204	18,693	768	—	37,342
Total	**3,224**	**5,270**	**15,216**	**36,389**	**9,843**	**23**	**69,965**

Carrying Value and Fair Value

All investment securities classified as available-for-sale financial assets and financial assets at fair value through profit or loss are stated at fair value. The following table sets forth, as of the dates indicated, the carrying value and the fair value of the held-to-maturity investments in our investment portfolio.

	As of December 31,						As of June 30,	
	2012		2013		2014		2015	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
	(in millions of RMB)							
Held-to-maturity investments	13,363	13,121	18,906	17,767	19,721	19,846	21,729	21,953

Investments classified as receivables are stated in our financial statements at amortized cost. As of December 31, 2012, 2013 and 2014 and June 30, 2015, the carrying value of our investments classified as receivables was substantially the same as their fair value.

Investment Concentration

The table below sets forth, as of the date indicated, our investment securities and other financial assets whose carrying value exceeded 10% of our total equity.

	As of June 30, 2015			
Issuer	Carrying value	% of total investment securities and other financial assets	% of total equity	Market/fair value
	(in millions of RMB, except percentage)			
The Export-Import Bank of China(1)	5,946	8.5%	49.1%	6,004
Agricultural Development Bank of China(1)	5,872	8.4	48.5	5,902
China Development Bank(1)	5,856	8.4	48.3	5,885
Government of Shandong Province(2)	3,419	4.9	28.2	3,368
CITIC Securities Co., Ltd.(3)	2,025	2.9	16.7	2,038
China Galaxy Securities Co., Ltd.(3)	2,004	2.9	16.5	2,030
Haitong Securities Co., Ltd.(3)	2,000	2.9	16.5	2,019
MOF(4)	1,768	2.5	14.6	1,903
Guotai Junan Securities Co., Ltd.(3)	1,500	2.1	12.4	1,516
Total	**30,390**	**43.5%**	**250.8%**	**30,665**

(1) A PRC policy bank, with quasi-sovereign credit and assigned an Aa3 credit rating by Moody's.
(2) Assigned an AAA credit rating by Brilliance Ratings.
(3) A securities company assigned an AA regulatory rating by CSRC in 2015, being the highest rating received by PRC securities companies.
(4) With sovereign credit.

Other Components of Our Assets

Other components of our assets consist primarily of (i) cash and deposits with central bank, (ii) financial assets held under resale agreements, (iii) deposits with banks and other financial institutions, (iv) placements with banks and other financial institutions, and (v) other assets. Our assets other than loans to customers and investment securities and other financial assets amounted to RMB33,467 million, RMB35,946 million, RMB33,675 million and RMB31,308 million as of December 31, 2012, 2013 and 2014 and June 30, 2015, respectively.

Cash and deposits with central bank consist primarily of cash, statutory deposit reserves and surplus deposit reserves. Statutory deposit reserves represent the minimum level of cash deposits that we are required to maintain with PBoC. The minimum level is determined as a percentage of our deposits from customers. The statutory deposit reserve ratio was 18% as of December 31, 2012, 2013 and 2014 for RMB-denominated customer deposits. The statutory deposit reserve ratio was 16.5% as of June 30, 2015 for our RMB-denominated customer deposits. For details of changes in statutory deposit reserve ratio, see "Supervision and Regulation—Required Deposit Reserve". Surplus deposit reserves are deposits with PBoC in excess of statutory deposit reserves which we maintain for clearing purposes. As of December 31, 2012, 2013 and 2014 and June 30, 2015, our cash and deposits with central bank amounted to RMB20,072 million, RMB20,871 million, RMB23,610 million and 21,552 million. The increase in our cash and deposits with central bank was primarily due to an increase in our statutory deposit reserves in line with the increase in our customer deposits.

Our financial assets held under resale agreements consist primarily of discounted bills, debt securities issued by the PRC government and PRC financial institutions as well as certain other financial assets we held under resale agreements with PRC banks. Our financial assets held under resale agreements increased by 40.1% from RMB5,857 million as of December 31, 2012 to RMB8,208 million as of December 31, 2013, primarily attributable to our investment in other financial assets held under resale agreements, which we disposed of subsequently. These financial assets decreased by 67.1% from RMB8,208 million as of December 31, 2013 to RMB2,698 million as of December 31, 2014, primarily due to our disposal of the above-mentioned other financial assets we held under resale agreements in 2014, upon the implementation of new regulatory requirements on interbank business, and decreases in all types of securities we held under resale agreements. As of June 30, 2015, these financial assets further decreased to RMB1,016 million.

Deposits with banks and other financial institutions consist primarily of our balances maintained with other banks and financial institutions within and outside of mainland China for settlement and clearance purposes and negotiated deposits with other PRC banks. As of December 31, 2012, 2013 and 2014 and June 30, 2015, our deposits with banks and other financial institutions amounted to RMB3,586 million, RMB2,481 million, RMB2,019 million and RMB3,012 million.

Placements with banks and other financial institutions consist primarily of interbank lending. As of December 31, 2012, 2013 and 2014 and June 30, 2015, our placements with banks and other financial institutions amounted to RMB1,063 million, RMB700 million, RMB1,156 million and RMB1,357 million, respectively.

Our other assets consist primarily of prepayment for long term assets, interest receivable, property and equipment, deferred tax assets, long-term deferred expenses, intangible assets and other receivables. Our other assets increased by 27.6% from RMB2,889 million as of December 31, 2012 to RMB3,686 million as of December 31, 2013, primarily due to an increase in our prepayment for long term assets, attributable to the renovations of our new branches and sub-branches. Our other assets increased by 13.7% from RMB3,686 million as of December 31, 2013 to RMB4,192 million as of December 31, 2014, primarily due to an increase in our interest receivable as a result of our increased holding of financial investments. As of June 30, 2015, our other assets amounted to RMB4,371 million.

LIABILITIES AND SOURCES OF FUNDS

Our total liabilities increased by 35.3% from RMB94,221 million as of December 31, 2012 to RMB127,484 million as of December 31, 2013, which in turn increased by 14.8% to RMB146,381 million as of December 31, 2014. As of June 30, 2015, our total liabilities further increased to RMB157,294 million.

The following table sets forth, as of the dates indicated, the components of our total liabilities.

	As of December 31,						As of June 30,	
	2012		2013		2014		2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Deposits from customers	75,648	80.3%	96,284	75.5%	101,734	69.5%	101,971	64.8%
Deposits from banks and other financial institutions	2,817	3.0	12,553	9.9	20,362	13.9	20,044	12.8
Placements from banks and other financial institutions	4,261	4.5	260	0.2	1,380	0.9	2,732	1.7
Financial assets sold under repurchase agreements	10,248	10.9	10,130	7.9	10,069	6.9	8,949	5.7
Debt securities issued	—	—	4,987	3.9	8,335	5.7	17,508	11.1
Borrowings from central bank	—	—	1,024	0.8	1,004	0.7	1,042	0.7
Other liabilities(1)	1,247	1.3	2,246	1.8	3,497	2.4	5,048	3.2
Total liabilities	**94,221**	**100.0%**	**127,484**	**100.0%**	**146,381**	**100.0%**	**157,294**	**100.0%**

(1) Consists primarily of interest payable, employee benefits payable, payable arising from fiduciary activities, taxes payable and certain other liabilities.

Deposits from Customers

Deposits from customers have historically been our primary source of funding, representing 80.3%, 75.5%, 69.5% and 64.8% of our total liabilities as of December 31, 2012, 2013 and 2014 and June 30, 2015, respectively. We provide demand and time deposit products to corporate and retail customers. The following table sets forth, as of the dates indicated, our deposits from corporate and retail customers by product type.

	As of December 31,						As of June 30,	
	2012		2013		2014		2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Corporate deposits								
Time(1)	25,794	34.1%	31,905	33.1%	29,678	29.2%	32,881	32.2%
Demand	27,637	36.5	32,135	33.4	34,587	34.0	27,970	27.4
Subtotal	53,431	70.6	64,040	66.5	64,265	63.2	60,851	59.6
Personal deposits								
Time(1)	17,415	23.0	26,666	27.7	30,704	30.2	33,073	32.5
Demand	4,544	6.0	5,278	5.5	6,553	6.4	7,860	7.7
Subtotal	21,959	29.0	31,944	33.2	37,257	36.6	40,933	40.2
Other deposits(2)	258	0.4	300	0.3	212	0.2	187	0.2
Total liabilities	**75,648**	**100.0%**	**96,284**	**100.0%**	**101,734**	**100.0%**	**101,971**	**100.0%**

(1) Includes principal-protected wealth management products, which we classify as deposits from customers pursuant to PBoC rules.
(2) Consists of outward remittance and remittance payables, and fiscal deposits to be transferred.

Our total deposits from customers increased by 27.3% from RMB75,648 million as of December 31, 2012 to RMB96,284 million as of December 31, 2013 as a result of increases in both corporate and personal deposits. Our total deposits from customers increased by 5.7% from RMB96,284 million as of December 31, 2013 to RMB101,734 million as of December 31, 2014, primarily due to an increase in our personal deposits from RMB31,944 million as of December 31, 2013 to RMB37,257 million as of December 31, 2014. Our total deposits from customers remained relatively stable at RMB101,971 million as of June 30, 2015.

Our personal deposits increased, both in absolute terms and as a percentage of our total deposits, from RMB21,959 million and 29.0%, respectively, as of December 31, 2012 to RMB31,944 million and 33.2%, respectively, as of December 31, 2013, which in turn increased to RMB37,257 million and 36.6% as of December 31, 2014, respectively. As of June 30, 2015, our personal deposits was RMB40,933 million, representing 40.2% of our total deposits from customers. The increase in our personal deposits, both in absolute terms and as a percentage of total deposits, resulted primarily from our continued efforts to grow our retail banking business and the continued expansion of our branch and sub-branch network and other distribution channels.

Distribution of Deposits by Geographical Region

We classify the geographic distribution of deposits based on the location of the branch or sub-branch taking the deposits. The following table sets forth, as of the dates indicated, the distribution of our deposits from customers by geographic region.

	As of December 31,						As of June 30,	
	2012		2013		2014		2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Qingdao	63,834	84.4%	78,676	81.7%	81,010	79.6%	77,510	76.0%
Ji'nan	9,773	12.9	11,074	11.5	8,180	8.0	9,304	9.1
Dongying	2,041	2.7	3,786	3.9	5,992	5.9	8,035	7.9
Others(1)	—	—	2,748	2.9	6,552	6.5	7,122	7.0
Total deposits from customers	**75,648**	**100.0%**	**96,284**	**100.0%**	**101,734**	**100.0%**	**101,971**	**100.0%**

(1) Consists of deposits from customers in Weihai, Zibo, Dezhou, Zaozhuang, Yantai and Binzhou.

Distribution of Deposits by Remaining Maturity

A majority of our deposits from customers as of June 30, 2015 were time deposits. The following table sets forth, as of the dates indicated, the distribution of our deposits from customers by remaining maturity.

	As of June 30, 2015											
	Repayable on demand		Due in less than 3 months		Due over 3 months up to 12 months		Due over 1 year up to 5 years		Due in more than 5 years			
	Amount	% of total deposits	Amount	% of total deposits	Amount	% of total deposits	Amount	% of total deposits	Amount	% of total deposits	Total	% of total deposits
	(in millions of RMB, except percentages)											
Corporate deposits												
Time[(1)]	815	0.8%	16,324	16.0%	12,045	11.8%	3,555	3.5%	142	0.1%	32,881	32.2%
Demand	27,970	27.4	—	—	—	—	—	—	—	—	27,970	27.4
Subtotal	28,785	28.2	16,324	16.0	12,045	11.8	3,555	3.5	142	0.1	60,851	59.6
Personal deposits												
Time[(1)]	22	0.0	9,948	9.8	12,085	11.9	11,018	10.8	—	—	33,073	32.5
Demand	7,860	7.7	—	—	—	—	—	—	—	—	7,860	7.7
Subtotal	7,882	7.7	9,948	9.8	12,085	11.9	11,018	10.8	—	—	40,933	40.2
Other deposits[(2)]	187	0.2	—	—	—	—	—	—	—	—	187	0.2
Total deposits from customers	**36,854**	**36.1%**	**26,272**	**25.8%**	**24,130**	**23.7%**	**14,573**	**14.3%**	**142**	**0.1%**	**101,971**	**100.0%**

(1) Includes principal-protected wealth management products, which we classify as deposits from customers pursuant to PBoC rules.
(2) Consists of outward remittance and remittance payables, and fiscal deposits to be transferred.

A majority of our deposits from customers are due within one year, representing 85.6% of our total deposits as of June 30, 2015. At the same date, substantially all of our corporate deposits are due within one year, representing 93.9% of our total corporate deposits. Personal deposits due within one year represented 73.1% of our total personal deposits as of June 30, 2015.

Distribution of Corporate Deposits by Size

The following table sets forth, as of the dates indicated, the distribution of our corporate deposits, in terms of total balance of deposits from a single corporate customer, by size of the deposits.

	As of December 31,						As of June 30,	
	2012		2013		2014		2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Less than RMB10 million	9,963	18.7%	10,967	17.1%	10,260	16.0%	9,729	16.0%
RMB10 million or more up to RMB100 million	21,707	40.6	25,818	40.3	26,655	41.4	24,957	41.0
RMB100 million or more	21,761	40.7	27,255	42.6	27,350	42.6	26,165	43.0
Total corporate deposits from customers	**53,431**	**100.0%**	**64,040**	**100.0%**	**64,265**	**100.0%**	**60,851**	**100.0%**

Distribution of Personal Deposits by Size

The following table sets forth, as of the dates indicated, the distribution of our personal deposits, in terms of total balance of deposits from a single retail customer, by size of the deposits.

	As of December 31,						As of June 30,	
	2012		2013		2014		2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Less than RMB50,000	5,819	26.5%	8,944	28.0%	11,230	30.1%	10,468	25.6%
RMB50,000 up to less than RMB300,000	8,191	37.3	12,171	38.1	14,178	38.1	14,856	36.3
RMB300,000 up to less than RMB1 million	3,711	16.9	5,079	15.9	5,563	14.9	5,542	13.5
RMB1 million up to less than RMB5 million	2,964	13.5	4,089	12.8	4,625	12.4	7,185	17.6
RMB 5 million or more	1,274	5.8	1,661	5.2	1,661	4.5	2,882	7.0
Total personal deposits from customers	**21,959**	**100.0%**	**31,944**	**100.0%**	**37,257**	**100.0%**	**40,933**	**100.0%**

Other Components of Our Liabilities

Other components of our liabilities consist primarily of (i) deposits from banks and other financial institutions, (ii) placements from banks and other financial institutions, (iii) financial assets sold under repurchase agreements, (iv) debt securities issued, (v) borrowings from central bank and certain other liabilities.

Our deposits from banks and other financial institutions amounted to RMB2,817 million, RMB12,553 million, RMB20,362 million and RMB20,044 million as of December 31, 2012, 2013 and 2014 and June 30, 2015, respectively. The increase in our deposits from banks and other financial institutions reflected our efforts to grow the financial market business.

Placements from banks and other financial institutions consist primarily of short-term money market borrowings. As of December 31, 2012, 2013 and 2014 and June 30, 2015, placements from banks and other financial institutions amounted to RMB4,261 million, RMB260 million, RMB1,380 million RMB2,732 million, respectively.

Financial assets sold under repurchase agreements consist primarily of debt securities and discounted bills we sold under repurchase agreements. As of December 31, 2012, 2013 and 2014 and June 30, 2015, financial assets sold under repurchase agreements were RMB10,248 million, RMB10,130 million, RMB10,069 million and RMB8,949 million, respectively. As of December 31, 2012, the collateral under the repurchase agreements consisted of debt securities issued by the PRC government and PRC financial institutions of RMB7,920 million and discounted bills of RMB2,328 million. As of December 31, 2013 and 2014 and June 30, 2015, the collateral under the repurchase agreements consisted primarily of debt securities issued by the PRC government and PRC financial institutions.

Debt securities issued consist primarily of (i) financial bonds we issued in March 2013, (ii) certificates of interbank deposit we issued from time to time in 2014, (iii) tier-two capital bonds we issued in March 2015, and (iv) certificates of interbank deposits we issued from time to time for the six months ended June 30, 2015. In March 2013, we issued financial bonds in an aggregate principal amount of RMB5.0 billion at fixed interest rates, which consist of (i) three-year bonds in an aggregate principal amount of RMB2.1 billion at a coupon rate of 4.6% per annum, maturing on March 5, 2016, and (ii) five-year bonds in an aggregate principal amount of RMB2.9 billion at a coupon rate of 4.8% per annum, maturing on March 5, 2018, both with annual interest payments. In 2014, we issued a number of certificates of interbank deposits in an aggregate principal amount of RMB5.1 billion with tenors between three and six months. In March 2015, we issued fixed rate tier-two capital bonds in an aggregated principal amount of RMB2.2 billion with a coupon interest rate of 5.59% per annum, maturing on March 5, 2025 with an option to redeem on March 5, 2020. For the six months ended June 30, 2015, we issued a number of certificates of interbank deposit in an aggregate principal amount of RMB14.3 billion with maturities of three months to one year. As of June 30, 2015, the carrying value and fair value of our outstanding certificates of interbank deposit issued was RMB10,322 million and RMB10,151 million, respectively. As a result of the foregoing, our debt securities issued amounted to RMB4,987 million, RMB8,335 million and RMB17,508 million as of December 31, 2013 and 2014 and June 30, 2015, respectively.

We had borrowings from central bank of RMB1,024 million, RMB1,004 million and RMB1,042 million as of December 31, 2013 and 2014 and June 30, 2015, respectively, consisting primarily of U.S. dollar-denominated borrowings from central bank secured by debt securities issued by policy banks, to support our foreign currency-denominated working capital loan business.

You should read the discussion and analysis set forth in this section in conjunction with our historical financial information, together with the accompanying notes, included in Appendix I to this prospectus. Our historical financial information have been prepared in accordance with IFRS. Capital adequacy ratios discussed in this section are calculated in accordance with applicable CBRC guidelines and based on our financial statements prepared in accordance with PRC GAAP.

OVERVIEW

As of December 31, 2014, we were the largest City Commercial Bank in Shandong Province in terms of total assets, total loans, customer deposits and total equity. As of June 30, 2015, we had total assets of RMB169,409 million, total loans (before taking into account the related allowance for impairment losses) of RMB69,959 million and total customer deposits of RMB101,971 million. From 2012 to 2014, our net profit increased from RMB920 million to RMB1,495 million at a CAGR of 27.5% and our operating income increased from RMB2,887 million to RMB4,365 million at a CAGR of 23.0%. In 2015, we ranked 434th among the top 1,000 banks in the world in terms of total assets at the end of 2014, according to The Banker, a UK magazine.

GENERAL FACTORS THAT AFFECT OUR RESULTS OF OPERATION

Our results of operation and financial condition have been and will be affected by various factors, including, among others, certain general factors set out below.

Economic Conditions of the PRC and Shandong Province

As a City Commercial Bank headquartered in Shandong Province, our financial condition and results of operation are affected by the economic conditions of the PRC, and Shandong Province in particular, and the macroeconomic policies implemented by the PRC government. From 2009 to 2014, according to data released by NBS, the PRC's nominal GDP grew at a CAGR of 13.0%. The PRC's economic growth has resulted in a substantial increase in corporate financing activities and individual wealth, which has in turn contributed to the rapid growth in the corporate and retail banking business of PRC commercial banks. For example, according to PBoC, from December 31, 2009 to December 31, 2014, total RMB-denominated loans and RMB-denominated deposits in the PRC banking industry grew at a CAGR of 15.4% and 13.8%, respectively. Recently, according to the 2014 PRC Banking Industry Operation Report released by CBRC, total assets of PRC commercial banks have reached RMB134.8 trillion as of year-end 2014, growing at a CAGR of 17.0% from 2009 to 2014.

After three decades of rapid development, China's economy has entered a New Normal. In 2014, China's real GDP growth rate was 7.40%. The slowdown of growth in the overall economy and certain industries may affect the results of operation and financial condition of PRC commercial banks.

In recent years, Shandong Province and Qingdao have undergone a rapid and sustained economic growth. In 2014, Shandong Province's nominal GDP was RMB5,942.7 billion, which was the third highest in China and grew at a CAGR of 11.9% from 2009 to 2014. In 2014, Qingdao's nominal GDP was RMB869.2 billion, which ranked first in Shandong Province and grew at a CAGR of 9.1% from 2012 to 2014. The State Council announced the Development Plan for the Blue Economic Zone in the Shandong Peninsula in 2011, which is the first national strategy approved under the 12th Five-Year Plan of the PRC government. Recently, the PRC government announced a strategy to expand economic and trade activities along the "Silk Road Economic Belt" and "21st Century Maritime Silk Road", known as "One Belt and One Road (一帶一路)", under which Qingdao has become an important city. Operation of commercial banks in Qingdao and Shandong Province are expected to benefit from such favorable development strategies. As our operating income is primarily derived from Shandong Province during the Track Record Period, the current and future economic conditions of Shandong Province and Qingdao may affect our business, results of operation and financial condition.

In recent years, the PRC government has implemented a series of macroeconomic policies, including (i) adjusting the benchmark interest rates and the PBoC statutory deposit reserve ratio for commercial banks, as well as gradually liberalizing the regulation on interest rates; (ii) imposing lending limits to control the growth of bank loans; and (iii) promoting the growth of certain industries or controlling overcapacity in certain other industries by issuing industry development guidelines. For the recent changes in the benchmark interest rates and interest rate liberalization, see "—Interest Rates". For example, on April 20, 2015, PBoC lowered the statutory deposit reserve ratio by 100bp for all deposit-taking financial institutions, which lowered banks' funding cost and increased their liquidity. These macroeconomic policies have had significant impact on lending activities of PRC commercial banks and borrowers' demand for bank financing, which in turn may affect the business, results of operation and financial condition of PRC commercial banks, including ours.

Interest Rates

Our operating income is largely derived from our net interest income. For the years ended December 31, 2012, 2013 and 2014, our net interest income represented 90.3%, 86.8% and 82.4% of our total operating income, respectively. Net interest income is affected by interest rates.

In the PRC, interest rates on RMB-denominated loans and deposits are set by commercial banks with reference to the benchmark interest rates on loans and deposits published, and adjusted from time to time by PBoC. PBoC lowered the benchmark interest rates on Renminbi-denominated loans and deposits several times in recent years. See "Supervision and Regulation—Pricing of Products and Services—Interest Rates for Loans and Deposits". In recent years, interest rate liberalization is accelerating. Effective June 8, 2012, PBoC allowed financial institutions to set interest rates on RMB-denominated deposits up to 110% of the PBoC benchmark rates, which was subsequently raised to 120%, 130% and 150% of the PBoC benchmark rates on November 22, 2014, March 1, 2015 and May 11, 2015, respectively. Effective August 26, 2015, PBoC removed the cap on the interest rates on RMB-denominated time deposits with tenors of longer than one year while the cap on the interest rates on RMB-denominated demand deposits and time deposits with tenors up to one year remain unchanged. Furthermore, effective October 24, 2015, PBoC removed the cap on interest rates on deposits and allowed commercial banks in China to set interest rates on deposits based on commercial considerations. On July 20, 2013, PBoC removed the floor rates for RMB-denominated loans (except for interest rates on residential mortgage loans) and allowed financial institutions to set interest rates based on commercial considerations. The liberalization of interest rates may intensify competition in the PRC banking industry, thereby affecting our business, results of operation and financial condition.

Regulatory Environment

The PRC banking industry is highly regulated. PRC commercial banks are mainly regulated by CBRC and PBoC. Additionally, PRC commercial banks are also subject to the supervision and regulation of other regulatory bodies such as SAFE, CSRC, CIRC, NDRC and MOF. See "Supervision and Regulation—Principal Regulators".

Our business, financial condition and results of operation are affected by changes in the PRC banking laws, regulations and policies such as the scope of business activities PRC commercial banks are permitted to engage in, interests and fees PRC commercial banks are allowed to charge, and restrictions imposed by regulatory authorities on PRC commercial banks in respect of credit extension to borrowers in specific industries or specific loan products. In addition, the PRC banking regulatory authorities have enhanced regulation on wealth management and interbank businesses of commercial banks, while restrictions on the asset securitization market have been relaxed. New regulations issued by regulatory authorities may have impacts on our business, results of operation and financial condition.

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

Recently, China has launched a number of initiatives to develop a multi-layered capital market and has encouraged enterprises to seek direct financing from the capital markets, which may affect the core businesses of PRC banks. The deepening of China's debt capital markets may impact our lending business, as certain corporate borrowers may issue debt securities at lower costs to meet their financing needs and thus have lower demands for bank loans. On the other hand, the development of China's capital markets may allow us to expand our fee- and commission-based business, such as our investment banking business and funds distribution, and broaden the scope of securities we may invest in.

Furthermore, China's traditional banking institutions are also facing new challenges from innovations in financial products and technology, for example, online wealth management products, third-party online payment platforms and Internet-based financing service platforms. These innovations in products and technologies may affect the business, results of operation and financial condition of PRC banks.

Competitive Landscape in the Banking Industry

We compete primarily with commercial banks conducting business in Shandong Province. We compete with our competitors mainly on product mix and prices, service quality, brand recognition, distribution networks and information technology capabilities. The increase in competition in the PRC banking industry may affect the pricing of our loans and deposits and the pricing of and income from our fee- and commission-based banking business.

SELECTED FINANCIAL DATA

The following table sets forth, for the periods indicated, our income statement.

	For the year ended December 31,			For the six months ended June 30,	
	2012	2013	2014	2014 (unaudited)	2015
	(in millions of RMB, except earnings per share)				
Interest income[(1)]	4,501	6,119	7,595	3,724	4,247
Interest expense	(1,894)	(3,031)	(3,999)	(1,951)	(2,297)
Net interest income	2,607	3,088	3,596	1,773	1,950
Fee and commission income	253	456	721	434	407
Fee and commission expense	(17)	(31)	(32)	(17)	(14)
Net fee and commission income	236	425	689	417	393
Net trading gains	21	7	34	21	12
Net gains arising from investments	5	1	11	7	36
Other operating income	18	35	35	(1)	8
Operating income	2,887	3,556	4,365	2,217	2,399
Operating expenses	(1,380)	(1,689)	(1,995)	(839)	(750)[(2)]
Pre-provision operating profit	1,507	1,867	2,370	1,378	1,649
Impairment losses	(284)	(348)	(412)	(181)	(241)
Profit before tax	1,223	1,519	1,958	1,197	1,408
Income tax expense	(303)	(377)	(463)	(287)	(334)
Net profit	**920**	**1,142**	**1,495**	**910**	**1,074**
Basic and diluted earnings per share (in RMB)	0.36	0.45	0.59	0.36	0.36

(1) Consists of interest income from loans to customers, fixed income investments, deposits with central bank, deposits with banks and other financial institutions, financial assets held under resale agreements and placements with banks and other financial institutions. See "—Results of Operation for the Six Months Ended June 30, 2014 and 2015—Net Interest Income–Interest Income" and "—Results of Operation for the Years Ended December 31, 2012, 2013 and 2014—Net Interest Income–Interest Income".

(2) Our operating expenses for the six months ended June 30, 2015 reflected the impact of a non-recurring write-back from our supplemental retirement benefits of RMB178 million. For details on the impact of such write-back on our operating expenses and our net profit, see "—Results of Operation for the Six Months Ended June 30, 2014 and 2015" and "—Results of Operation for the Six Months Ended June 30, 2014 and 2015—Operating Expenses".

The following table sets forth, for the periods or as of the dates indicated, selected financial ratios.

	For the year ended December 31,			For the six months ended June 30,	
	2012	2013	2014	2014[(1)]	2015[(1)]
Profitability indicators					
Return on average total assets[(2)]	1.03%	0.96%	1.02%	1.27%	1.32%
Return on average equity[(3)]	12.78%	14.60%	16.62%	21.04%	19.62%
Net interest spread[(4)]	2.86%	2.38%	2.25%	2.33%	2.13%
Net interest margin[(5)]	3.04%	2.54%	2.43%	2.50%	2.34%
Net fee and commission income to operating income	8.17%	11.95%	15.78%	18.81%	16.38%
Cost-to-income ratio[(6)]	41.57%	41.06%	39.61%	31.57%	25.14%

(1) On an annualized basis.

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

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

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

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

(6) Calculated by dividing total operating expenses (excluding business tax and surcharges) by total operating income. Our operating expenses for the six months ended June 30, 2015 reflected the impact of a non-recurring write-back from our supplemental retirement benefits. For details on the impact of such write-back on our operating expenses, see "–Results of Operation for the Six Months Ended June 30, 2014 and 2015–Operating Expenses".

The following table sets forth, as of the dates indicated, information relating to certain regulatory indicators, calculated in accordance with the requirements of the PRC banking regulatory authorities and applicable accounting standards.

	As of December 31,			As of June 30,	
	2012	2013	2014	2014	2015
Capital adequacy indicators					
Calculated based on the Capital Administrative Measures					
Core tier-one capital adequacy ratio(2)	N/A(1)	9.75%	9.72%	9.75%	10.10%
Tier-one capital adequacy ratio(3)	N/A(1)	9.75%	9.72%	9.75%	10.10%
Capital adequacy ratio(4)	N/A(1)	10.88%	10.75%	10.87%	12.78%
Total equity to total assets	7.32%	6.05%	6.27%	6.11%	7.15%
Asset quality indicators					
Non-performing loan ratio(5)	0.76%	0.75%	1.14%	0.90%	1.19%
Allowance coverage ratio(6)	352.59%	365.47%	242.34%	310.69%	218.59%
Allowance to gross loan ratio(7)	2.68%	2.74%	2.76%	2.80%	2.61%

(1) As of December 31, 2012, our core capital adequacy ratio and capital adequacy ratio as calculated based on the then effective Capital Adequacy Measures was 12.89% and 13.70%, respectively, in compliance with the requirements under the then effective Capital Adequacy Measures. The Capital Adequacy Measures has been replaced by the Capital Administrative Measures on January 1, 2013 and is no longer effective.

(2) Calculated by dividing core tier-one capital, net of core tier-one capital deductions, by risk-weighted assets. For the components of core tier-one capital, core tier-one capital deductions and risk-weighted assets under the Capital Administrative Measures, see "Supervision and Regulation—Supervision over Capital Adequacy—Latest CBRC Supervisory Standards Over Capital Adequacy" and "—Capital Resources—Capital Adequacy".

(3) Calculated by dividing tier-one capital, net of tier-one capital deductions, by risk-weighted assets. For the components of tier-one capital, tier-one capital deductions and risk-weighted assets under the Capital Administrative Measures, see "Supervision and Regulation—Supervision over Capital Adequacy—Latest CBRC Supervisory Standards Over Capital Adequacy" and "—Capital Resources—Capital Adequacy".

(4) Calculated by dividing total capital, net of capital deductions, by risk-weighted assets. For the components of our total capital, capital deductions and risk weighted assets under the Capital Administrative Measures, see "Supervision and Regulation—Supervision over Capital Adequacy—Latest CBRC Supervisory Standards Over Capital Adequacy" and "—Capital Resources—Capital Adequacy".

(5) Calculated by dividing total non-performing loans by gross loans.

(6) Calculated by dividing total allowance for impairment losses on loans to customers by total non-performing loans.

(7) Calculated by dividing total allowance for impairment losses on loans to customers by gross loans to customers.

RESULTS OF OPERATION FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2015

The following table sets forth, for the periods indicated, our condensed results of operation.

	For the six months ended June 30,	
	2014 (unaudited)	2015
	(in millions of RMB)	
Interest income	3,724	4,247
Interest expense	(1,951)	(2,297)
Net interest income	1,773	1,950
Fee and commission income	434	407
Fee and commission expense	(17)	(14)
Net fee and commission income	417	393
Net trading gains	21	12
Net gains arising from investments	7	36
Other operating income[(1)]	(1)	8
Operating income	2,217	2,399
Operating expenses	(839)	(750)
Pre-provision operating profit	1,378	1,649
Impairment losses	(181)	(241)
Profit before tax	1,197	1,408
Income tax expense	(287)	(334)
Net profit	**910**	**1,074**

(1) Consists primarily of net gains or losses on disposal of property and equipment, rental income and other operating income or expense.

Our net profit increased by 18.0% from RMB910 million for the six months ended June 30, 2014 to RMB1,074 million for the six months ended June 30, 2015, primarily due to a 19.7% increase in our pre-provision operating profit from RMB1,378 million for the six months ended June 30, 2014 to RMB1,649 million for the six months ended June 30, 2015. The increase in our pre-provision operating profit was primarily due to an increase in our net interest income and a decrease in our operating expenses. Our operating expenses for the six months ended June 30, 2015 reflected the impact of a non-recurring write-back from our supplemental retirement benefits of RMB178 million. If such write-back had not occurred, our net profit for the six months ended June 30, 2015 would have been lower by RMB134 million.

Net Interest Income

Net interest income is the largest component of our operating income, representing 80.0% and 81.3% of our operating income for the six months ended June 30, 2014 and 2015, respectively.

The following table sets forth, for the periods indicated, our interest income, interest expense and net interest income.

	For the six months ended June 30,	
	2014 (unaudited)	2015
	(in millions of RMB)	
Interest income	3,724	4,247
Interest expense	(1,951)	(2,297)
Net interest income	**1,773**	**1,950**

Our net interest income increased by 10.0% from RMB1,773 million in the six months ended June 30, 2014 to RMB1,950 million in the six months ended June 30, 2015.

The following table sets forth, for the periods indicated, the daily average balances of our interest-earning assets and interest-bearing liabilities and the related interest income or expenses and the related average yields on assets or related average costs of liabilities.

	For the six months ended June 30,					
	2014			2015		
	Average balance	Interest income/ expense	Average yield/ cost(1)	Average balance	Interest income/ expense	Average yield/ cost(1)
	(in millions of RMB, except percentages)					
Interest-earning assets						
Loans to customers	58,472	1,978	6.82%	67,040	2,143	6.45%
Fixed income investments(2)	47,179	1,179	5.04	69,221	1,784	5.20
Deposits with central bank(3)	18,939	147	1.57	19,322	150	1.57
Deposits with banks and other financial institutions	5,641	121	4.33	2,412	25	2.09
Financial assets held under resale agreements	10,724	257	4.83	8,637	137	3.20
Placements with banks and other financial institution	2,091	42	4.05	1,325	8	1.22
Total interest-earning assets	**143,046**	**3,724**	**5.25%**	**167,957**	**4,247**	**5.10%**
Interest-bearing liabilities						
Deposits from customers	96,499	1,066	2.23	100,859	1,147	2.29
Deposits from banks and other financial institutions	14,930	415	5.61	23,549	568	4.86
Financial assets sold under repurchase agreements	14,185	304	4.32	14,533	227	3.15
Placements from banks and other financial institutions	3,120	38	2.46	2,351	8	0.69
Debt securities issued	4,988	118	4.77	13,932	334	4.83
Borrowings from central bank	873	10	2.31	989	13	2.65
Total interest-bearing liabilities	**134,595**	**1,951**	**2.92%**	**156,213**	**2,297**	**2.97%**
Net interest income		**1,773**			**1,950**	
Net interest spread(4)			**2.33%**			**2.13%**
Net interest margin(5)			**2.50%**			**2.34%**

(1) On an annualized basis.

(2) Consists of our holdings of fixed income products classified as financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investment classified as receivables.

(3) Consists primarily of statutory deposit reserves and surplus deposit reserves.

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

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

The following table sets forth, for the periods indicated, the allocation of changes in our interest income and interest expense due to changes in volume and changes in rate. Changes in volume are measured by changes in the daily average balances and changes in rates are measured by changes in the average rates. Changes caused by both volume and rates have been allocated to changes in volume.

	For the six months ended June 30,		
	2015 vs. 2014		
	Increase/ (decrease) due to		Net increase/ (decrease)[3]
	Volume[1]	Rate[2]	
	(in millions of RMB)		
Assets			
Loans to customers	272	(107)	165
Fixed income investments[4]	567	38	605
Deposits with central bank[5]	3	—	3
Deposits with banks and other financial institutions	(33)	(63)	(96)
Financial assets held under resale agreements	(33)	(87)	(120)
Placements with banks and other financial institutions	(5)	(29)	(34)
Changes in interest income	**771**	**(248)**	**523**
Liabilities			
Deposits from customers	53	28	81
Deposits from banks and other financial institutions	208	(55)	153
Financial assets sold under repurchase agreements	5	(82)	(77)
Placements from banks and other financial institutions	(3)	(27)	(30)
Debt securities issued	215	1	216
Borrowings from central bank	2	1	3
Changes in interest expense	**480**	**(134)**	**346**
Changes in net interest income	**291**	**(114)**	**177**

(1) Represents the daily average balance for the period minus the daily 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 daily average balance for the previous period.

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

(4) Consists of our holdings of fixed income products classified as financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investment classified as receivables.

(5) Consists primarily of statutory deposit reserves and surplus deposit reserves.

Interest Income

The following table sets forth, for the periods indicated, the breakdown of our interest income.

	For the six months ended June 30,			
	2014 (unaudited)		2015	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Interest income from				
Loans to customers				
Corporate loans	1,479	39.7%	1,579	37.2%
Personal loans	499	13.4	564	13.3
Subtotal	1,978	53.1	2,143	50.5
Fixed income investments[(1)]	1,179	31.8	1,784	42.0
Deposits with central bank[(2)]	147	3.9	150	3.5
Deposits with banks and other financial institutions	121	3.2	25	0.6
Financial assets held under resale agreements	257	6.9	137	3.2
Placements with banks and other financial institutions	42	1.1	8	0.2
Total interest income	**3,724**	**100.0%**	**4,247**	**100.0%**

(1) Consists of interest income from our holdings of fixed income products classified as financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, and investment classified as receivables.

(2) Consists primarily of statutory deposit reserves and surplus deposit reserves.

Our interest income increased by 14.0% from RMB3,724 million for the six months ended June 30, 2014 to RMB4,247 million for the six months ended June 30, 2015, primarily due to a 17.4% increase in the average balance of our interest-earning assets from RMB143,046 million for the six months ended June 30, 2014 to RMB167,957 million for the six months ended June 30, 2015, reflecting our overall business growth, which was partially offset by a decrease in the average yield on our interest-earning assets from 5.25% for the six months ended June 30, 2014 to 5.10% for the six months ended June 30, 2015.

Interest Income from Loans to Customers

Interest income from loans to customers is the largest component of our interest income, representing 53.1% and 50.5% of our interest income for the six months ended June 30, 2014 and 2015, respectively.

The following table sets forth, for the periods indicated, the daily average balance, interest income and average yield for each component of our loans to customers.

	For the six months ended June 30,					
	2014			2015		
	Average balance	Interest income	Average yield[(1)]	Average balance	Interest income	Average yield[(1)]
	(in millions of RMB, except percentages)					
Corporate loans	44,145	1,479	6.76%	49,651	1,579	6.41%
Personal loans	14,327	499	7.02	17,389	564	6.54
Total	**58,472**	**1,978**	**6.82%**	**67,040**	**2,143**	**6.45%**

(1) On an annualized basis.

Our interest income from loans to customers increased by 8.3% from RMB1,978 million for the six months ended June 30, 2014 to RMB2,143 million for the six months ended June 30, 2015, primarily due to a 14.7% increase in the average balance of our total loans to customers from RMB58,472 million for the six months ended June 30, 2014 to RMB67,040 million for the six months ended June 30, 2015, which was partially offset by a decrease in the average yield on our loans to customers from 6.82% for the six months ended June 30, 2014 to 6.45% for the six months ended June 30, 2015. The increase in the average balance of our loans to customers primarily reflected the overall growth of our lending business. The decrease in the average yield on our loans to customers was primarily due to the consecutive cuts in interest rates in the second half of 2014 and the first half of 2015 by PBoC.

Corporate Loans. Our interest income from corporate loans represented 74.8% and 73.7% of our total interest income from loans to customers for the six months ended June 30, 2014 and 2015, respectively. Our interest income from corporate loans increased by 6.8% from RMB1,479 million for the six months ended June 30, 2014 to RMB1,579 million for the six months ended June 30, 2015, primarily due to a 12.5% increase in the average balance of our corporate loans from RMB44,145 million for the six months ended June 30, 2014 to RMB49,651 million for the six months ended June 30, 2015, which was partially offset by a decrease in the average yield on our corporate loans from 6.76% for the six months ended June 30, 2014 to 6.41% for the six months ended June 30, 2015. The increase in the average balance of our corporate loans primarily reflected the overall growth of our corporate loan business.

Personal Loans. Our interest income from personal loans increased by 13.0% from RMB499 million for the six months ended June 30, 2014 to RMB564 million for the six months ended June 30, 2015, primarily due to a 21.4% increase in the average balance of our personal loans from RMB14,327 million for the six months ended June 30, 2014 to RMB17,389 million for the six months ended June 30, 2015 resulting from our increased efforts to grow our retail banking business, which was partially offset by a decrease in the average yield on our personal loans from 7.02% for the six months ended June 30, 2014 to 6.54% for the six months ended June 30, 2015.

Interest Income from Fixed Income Investments

Our interest income from fixed income investments consists of interest income from our holdings of fixed income products classified as financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investment classified as receivables. Interest income from fixed income investments is the second largest component of our interest income, representing 31.8% and 42.0% of our interest income for the six months ended June 30, 2014 and 2015, respectively.

Our interest income from fixed income investments increased by 51.3% from RMB1,179 million for the six months ended June 30, 2014 to RMB1,784 million for the six months ended June 30, 2015, primarily due to a 46.7% increase in the average balance of our fixed income investments from RMB47,179 million for the six months ended June 30, 2014 to RMB69,221 million for the six months ended June 30, 2015, accompanied by an increase in the average yield on these assets from 5.04% for the six months ended June 30, 2014 to 5.20% for the six months ended June 30, 2015. These changes were primarily due to the increase in fixed income investment products with higher yields and the expansion of our investment scale. For details of investment products, see "Assets and Liabilities—Assets—Investment Securities and Other Financial Assets".

Interest Income from Deposits with Central Bank

Our interest-earning balances with central bank consist primarily of statutory deposit reserves and surplus deposit reserves with PBoC. Statutory deposit reserves represent the minimum level of cash deposits that we are required to maintain at PBoC, calculated as a percentage of the balance of our general deposits from customers. Surplus deposit reserves are deposits with PBoC in excess of statutory deposit reserves, which we maintain with PBoC for clearing purposes.

Our interest income from deposits with central bank for the six months ended June 30, 2014 and 2015 remained relatively stable at RMB147 million and RMB150 million, respectively.

Interest Income from Deposits with Banks and Other Financial Institutions

Our interest income from deposits with banks and other financial institutions decreased by 79.3% from RMB121 million for the six months ended June 30, 2014 to RMB25 million for the six months ended June 30, 2015, primarily due to a decrease in the average yield on our deposits with banks and other financial institutions from 4.33% for the six months ended June 30, 2014 to 2.09% for the six months ended June 30, 2015 and, to a lesser extent, a 57.2% decrease in the average balance of our deposits with banks and other financial institutions from RMB5,641 million for the six months ended June 30, 2014 to RMB2,412 million for the six months ended June 30, 2015. The decrease in the average yield on our deposits with banks and other financial institutions was primarily due to increased market liquidity, and a decrease in the interbank market interest rate for Renminbi resulted from consecutive cuts in interest rate by PBoC. Our deposits with banks and other financial institutions consisted primarily of foreign currency-denominated funds borrowed on the interbank market and deposited with other banks for profit, which were relatively lower yielding. The decrease in the average balance of our deposits with banks and other financial institutions was primarily due to our allocation of Renminbi-denominated funds to assets with higher yields.

Interest Income from Financial Assets Held under Resale Agreements

Our interest income from financial assets held under resale agreements decreased by 46.7% from RMB257 million for the six months ended June 30, 2014 to RMB137 million from the six months ended June 30, 2015, primarily due to a decrease in the average yield on our financial assets held under resale agreements from 4.83% for the six months ended June 30, 2014 to 3.20% for the six months ended June 30, 2015 and, to a lesser extent, a 19.5% decrease in the average balance of our financial assets held under resale agreements from RMB10,724 million for the six months ended June 30, 2014 to RMB8,637 million for the six months ended June 30, 2015. The decrease in the average yield on our financial assets held under resale agreements was primarily due to increased market liquidity, and a decrease in the interbank market interest rate resulted from consecutive cuts in interest rate by PBoC. The decrease in the average balance of our financial assets held under resale agreements was primarily due to our allocation of funds to assets with higher yields.

Interest Income from Placements with Banks and Other Financial Institutions

Our interest income from placements with banks and other financial institutions decreased by 81.0% from RMB42 million for the six months ended June 30, 2014 to RMB8 million for the six months ended June 30, 2015, primarily due to a decrease in the average yield on our placements with banks and other financial institutions from 4.05% for the six months ended June 30, 2014 to 1.22% for the six months ended June 30, 2015 and, to a lesser extent, a 36.6% decrease in the average balance of our placements with banks and other financial institutions from RMB2,091 million for the six months ended June 30, 2014 to RMB1,325 million for the six months ended June 30, 2015. The decrease in the average yield on our placements with banks and other financial institutions was primarily due to increased market liquidity, and a decrease in the interbank market interest rate resulted from consecutive cuts in interest rate by PBoC. The decrease in the average balance of our placements with banks and other financial institutions was primarily due to our allocation of funds to assets with higher yield.

Interest Expense

The following table sets forth, for the periods indicated, the breakdown of our interest expense.

	For the six months ended June 30,			
	2014 (unaudited)		2015	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Interest expense on				
Deposits from customers	1,066	54.7%	1,147	50.0%
Deposits from banks and other financial institutions	415	21.3	568	24.7
Financial assets sold under repurchase agreements	304	15.6	227	9.9
Placements from banks and other financial institutions	38	1.9	8	0.3
Debt securities issued	118	6.0	334	14.5
Borrowings from central bank	10	0.5	13	0.6
Total interest expense	**1,951**	**100.0%**	**2,297**	**100.0%**

Our interest expense increased by 17.7% from RMB1,951 million for the six months ended June 30, 2014 to RMB2,297 million for the six months ended June 30, 2015, primarily due to a 16.1% increase in the average balance of our interest-bearing liabilities from RMB134,595 million for the six months ended June 30, 2014 to RMB156,213 million for the six months ended June 30, 2015.

Interest Expense on Deposits from Customers

Deposits from customers are our primary source of funding. Interest expense on deposits from customers represented 54.7% and 50.0% of our total interest expense for the six months ended June 30, 2014 and 2015, respectively.

The following table sets forth, for the periods indicated, the daily average balance, interest expense and average cost of our customer deposits by product type.

	For the six months ended June 30,					
	2014			2015		
	Average balance	Interest expense	Average cost[(1)]	Average balance	Interest expense	Average cost[(1)]
	(in millions of RMB, except percentages)					
Corporate deposits						
Time	32,126	421	2.64%	30,942	424	2.76%
Demand	29,584	102	0.70	30,103	107	0.72
Subtotal	61,710	523	1.71	61,045	531	1.75
Personal deposits						
Time	26,562	458	3.48	30,210	528	3.52
Demand	5,295	10	0.38	6,370	12	0.38
Subtotal	31,857	468	2.96	36,580	540	2.98
Others[(2)]	2,932	75	5.16	3,234	76	4.74
Total deposits from customers	**96,499**	**1,066**	**2.23%**	**100,859**	**1,147**	**2.29%**

(1) On an annualized basis

(2) Consists primarily of principal-protected wealth management products, which we classify as deposits from customers pursuant to PBoC rules.

Our interest expense on deposits from customers increased by 7.6% from RMB1,066 million for the six months ended June 30, 2014 to RMB1,147 million for the six months ended June 30, 2015, primarily due to a 4.5% increase in the average balance of our customer deposits from RMB96,499 million for the six months ended June 30, 2014 to RMB100,859 million for the six months ended June 30, 2015, accompanied by an increase in the average cost of our customer deposits from 2.23% for the six months ended June 30, 2014 to 2.29% for the six months ended June 30, 2015. The increase in the average balance of our customer deposits primarily reflected our overall business growth. The average cost of our customer deposits increased primarily as a result of us raising interest rates on certain Renminbi-denominated customer deposits to respond to the increased competition, as PBoC lifted the interest rate cap for Renminbi-denominated deposits while lowering the benchmark interest rate on Renminbi-denominated deposits.

Interest Expense on Deposits from Banks and Other Financial Institutions

Interest expense on deposits from banks and other financial institutions represented 21.3% and 24.7% of our interest expense for the six months ended June 30, 2014 and 2015, respectively.

Our interest expense on deposits from banks and other financial institutions increased by 36.9% from RMB415 million for the six months ended June 30, 2014 to RMB568 million for the six months ended June 30, 2015, primarily due to a 57.7% increase in the average balance of our deposits from banks and other financial institutions from RMB14,930 million for the six months ended June 30, 2014 to RMB23,549 million for the six months ended June 30, 2015, which was partially offset by a decrease in the average cost of our deposits from banks and other financial institutions from 5.61% for the six months ended June 30, 2014 to 4.86% for the six months ended June 30, 2015. The increase in the average balance of our deposits from banks and other financial institutions was primarily due to our efforts to expand our interbank fund sources. The decrease in the average cost of our deposits from banks and other financial institutions was primarily due to increased market liquidity, and a decrease in the interbank market interest rate resulted from consecutive interest rate cuts by PBoC.

Interest Expense on Financial Assets Sold under Repurchase Agreements

Interest expense on financial assets sold under repurchase agreements represented 15.6% and 9.9% of our interest expense for the six months ended June 30, 2014 and 2015, respectively.

Our interest expense on financial assets sold under repurchase agreements decreased by 25.3% from RMB304 million for the six months ended June 30, 2014 to RMB227 million for the six months ended June 30, 2015, primarily due to a decrease in the average cost of our financial assets sold under repurchase agreements from 4.32% for the six months ended June 30, 2014 to 3.15% for the six months ended June 30, 2015, resulted primarily from increased market liquidity, and a decrease in the interbank market interest rate resulted from consecutive interest rate cuts by PBoC.

Interest Expense on Placements from Banks and Other Financial Institutions

Our interest expense on placements from banks and other financial institutions decreased by 78.9% from RMB38 million for the six months ended June 30, 2014 to RMB8 million for the six months ended June 30, 2015, primarily due to a decrease in the average cost of our placements from banks and other financial institutions from 2.46% for the six months ended June 30, 2014 to 0.69% for the six months ended June 30, 2015, resulted primarily from increased market liquidity, and a decrease in the interbank market interest rate resulted from consecutive interest rate cuts by PBoC.

Interest Expense on Debt Securities Issued

Interest expense on debt securities issued represented 6.0% and 14.5% of our interest expense for the six months ended June 30, 2014 and 2015, respectively.

Our interest expense on debt securities issued almost tripled from RMB118 million for the six months ended June 30, 2014 to RMB334 million for the six months ended June 30, 2015, primarily due to a 179.3% increase in the average balance of our debt securities issued from RMB4,988 million for the six months ended June 30, 2014 to RMB13,932 million for the six months ended June 30, 2015 as a result of our issuance of the tier-two capital bonds in the aggregate principal amount of RMB2.2 billion in March 2015, certificates of interbank deposit in the aggregate principal amount of RMB14.3 billion during the six months ended June 30, 2015, and a number of certificates of interbank deposit in the aggregate principal amount of RMB5.1 billion in 2014.

Interest Expense on Borrowings from Central Bank

Our interest expense on borrowings from central bank increased by 30.0% from RMB10 million for the six months ended June 30, 2014 to RMB13 million for the six months ended June 30, 2015, primarily due to a 13.3% increase in the average balance of our borrowings from central bank from RMB873 million for the six months ended June 30, 2014 to RMB989 million for the six months ended June 30, 2015, accompanied by an increase in the average cost of our borrowings from central bank from 2.31% for the six months ended June 30, 2014 to 2.65% for the six months ended June 30, 2015. The increase in the average balance of our borrowings from central bank was primarily due to the increase in U.S. dollar-denominated borrowings from central bank to meet customer demands for foreign currency business. The increase in the average cost of borrowings from central bank was primarily because of a higher LIBOR for the first half of 2015 compared to the first half of 2014, as the interest rate for such U.S. dollar-denominated borrowings were determined with reference to LIBOR.

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 daily average balance of total interest-earning assets.

Our annualized net interest spread decreased from 2.33% for the six months ended June 30, 2014 to 2.13% for the six months ended June 30, 2015, because the annualized average yield on our interest-earning assets decreased by 15 basis points, while the annualized average cost on our interest-bearing liabilities increased by 5 basis points. Our annualized net interest margin decreased from 2.50% for the six months ended June 30, 2014 to 2.34% for the six months ended June 30, 2015, because our net interest income increased by 10.0% for the six months ended June 30, 2015, lower than the 17.4% increase in the average balance of our interest-earning assets. The decrease in our annualized net interest margin and annualized net interest spread were primarily due to a combination of (i) a decrease in the average yield on our customer loans, deposits and placements with banks and other financial institutions, and financial assets held under resale agreements, (ii) an increase in the average balance of our debt securities issued, which are of relatively higher cost, and (iii) an increase in the average cost of customer deposits.

Net Fee and Commission Income

Net fee and commission income represented 18.8% and 16.4% of our total operating income for the six months ended June 30, 2014 and 2015, respectively. The following table sets forth, for the periods indicated, the principal components of our net fee and commission income.

	For the six months ended June 30,	
	2014 (unaudited)	2015
	(in millions of RMB)	
Fee and commission income		
Settlement fees	214	142
Agency service fees	111	112
Custody service fees	66	56
Wealth management service fees	21	73
Bank card service fees	9	11
Others(1)	13	13
Subtotal	434	407
Fee and commission expenses	(17)	(14)
Net fee and commission income	**417**	**393**

(1) Consists primarily of corporate account management fees and fees from financial consulting.

Our net fee and commission income decreased by 5.8% from RMB417 million for the six months ended June 30, 2014 to RMB393 million for the six months ended June 30, 2015, primarily because we reduced our trade finance business in light of the price volatility in the commodity trading business, resulting in a decrease in the related fee and commission income.

Fee and Commission Income

Our fee and commission income decreased by 6.2% from RMB434 million for the six months ended June 30, 2014 to RMB407 million for the six months ended June 30, 2015, primarily due to a decrease in our settlement fees, which was partially offset by an increase in our wealth management service fees.

Settlement Fees

Settlement fees consist primarily of fees earned on settlement and clearing services in respect of bank drafts, commercial drafts, promissory notes and checks, as well as fees earned on money transfers and clearing services. Our settlement fees decreased by 33.6% from RMB214 million for the six months ended June 30, 2014 to RMB142 million for the six months ended June 30, 2015, primarily due to a decrease in the settlement transactions in relation to our trade finance business.

Agency Service Fees

Agency service fees consist primarily of fees earned from agency services provided to asset management plans. Agency service fees remained effectively stable at RMB111 million and RMB112 million for the six months ended June 30, 2014 and 2015, respectively.

Custody Service Fees

Custody service fees consist primarily of fees earned on custody services we provided to trust fund plans. Our custody service fees decreased by 15.2% from RMB66 million for the six months ended June 30, 2014 to RMB56 million for the six months ended June 30, 2015, primarily due to the decrease in the rate of our custody service fees.

Wealth Management Service Fees

Wealth management service fees consist primarily of fees and commissions received for wealth management services provided to our customers. Our wealth management service fees more than tripled from RMB21 million for the six months ended June 30, 2014 to RMB73 million for the six months ended June 30, 2015, primarily due to an increase in our wealth management products issued.

Bank Card Service Fees

Bank card service fees consist primarily of transaction fees from merchants on the use of our bank cards. Bank card service fees increased by 22.2% from RMB9 million for the six months ended June 30, 2014 to RMB11 million for the six months ended June 30, 2015, primarily due to an increase in our bank cards issued.

Fee and Commission Expense

Fee and commission expenses consist primarily of fees paid to third parties in connection with our fee- and commission-based services that can be directly allocated to the provision of such services. Our fee and commission expenses decreased by 17.6% from RMB17 million for the six months ended June 30, 2014 to RMB14 million for the six months ended June 30, 2015.

Other Component of our Operating Income

The following table sets forth, for the periods indicated, other components of our operating income.

	For the six months ended June 30,	
	2014 (unaudited)	2015
	(in millions of RMB)	
Net trading gains	21	12
Net gains arising from investments	7	36
Other operating income[1]	(1)	8
Total	**27**	**56**

(1) Consists of net gains or losses on disposal of property and equipment, rental income and certain other operating income or expenses.

Net Trading Gains

Net trading gains consist primarily of gains arising from the buying and selling of, and changes in the fair value of, debt securities at fair value through profit or loss, and gains from spot trades in foreign currencies. Our net trading gains decreased by 42.9% from RMB21 million for the six months ended June 30, 2014 to RMB12 million for the six months ended June 30, 2015, primarily due to changes in the fair value of these assets.

Net Gains Arising from Investments

Net gains arising from investments consist primarily of net realized gains on disposal of our available-for-sale financial assets and dividends from available-for-sale equity investments. Our net gains arising from investments increased significantly from RMB7 million for the six months ended June 30, 2014 to RMB36 million for the six months ended June 30, 2015, primarily due to our disposal of certain available-for-sale debt securities in light of the decrease in the yield on these debt securities.

Other Operating Income

Other operating income consists of net gains or losses on disposal of property and equipment, rental income, and certain other operating income or expenses. We recorded other operating expense of RMB1 million for the six months ended June 30, 2014. We recorded other operating income of RMB8 million for the six months ended June 30, 2015.

Operating Expenses

The following table sets forth, for the periods indicated, the principal components of our total operating expenses.

	For the six months ended June 30,	
	2014 (unaudited)	2015
	(in millions of RMB, except percentages)	
Staff costs	382	273
Business tax and surcharges	139	147
Property and equipment expenses	164	192
Other general and administrative expenses[1]	154	138
Total operating expenses	**839**	**750**
Cost-to-income ratio[2]	**31.57%**	**25.14%**

(1) Consists primarily of incidental expenses, expenses on automobiles, marketing expenses, and printing expenses.

(2) Calculated by dividing (i) total operating expenses, excluding business tax and surcharges, by (ii) total operating income.

Our operating expenses decreased by 10.6% from RMB839 million for the six months ended June 30, 2014 to RMB750 million for the six months ended June 30, 2015. Our cost-to-income ratio (excluding business tax and surcharges) was 31.57% and 25.14% for the six months ended June 30, 2014 and 2015, respectively. The decrease in our cost-to-income ratio was primarily due to a combination of a decrease in our operating expense and an increase in our operating income. Our operating expenses for the six months ended June 30, 2015 reflected the impact of a non-recurring write-back from our supplemental retirement benefits of RMB178 million. If such write-back had not occurred, our cost-to-income ratio for the six months ended June 30, 2015 would have been 32.56%.

Staff Costs

Staff costs are the largest component of our operating expenses, representing 45.5% and 36.4% of our total operating expenses for the six months ended June 30, 2014 and 2015, respectively.

The following table sets forth, for the periods indicated, the components of our staff costs.

	For the six months ended June 30,	
	2014 (unaudited)	2015
	(in millions of RMB)	
Salaries, bonuses and allowances	282	331
Social insurance and housing allowances	48	56
Staff welfare expenses	16	18
Contributions to annuity funds	22	29
Staff education expenses	7	8
Labor union expenses	6	7
Others[1]	1	(176)
Total staff costs	**382**	**273**

(1) Consists primarily of labor protection expenses and supplemental retirement benefits expenses/(write-backs).

Staff costs decreased by 28.5% from RMB382 million for the six months ended June 30, 2014 to RMB273 million for the six months ended June 30, 2015, primarily because we amended our supplementary retirement benefits plan in the first half of 2015, and the decrease in present value of the defined benefit obligation by RMB178 million resulting from the amendments to supplementary retirement benefits plan was recognized in the operating expenses for the period.

Salaries, bonuses and allowances increased by 17.4% from RMB282 million for the six months ended June 30, 2014 to RMB331 million for the six months ended June 30, 2015, primarily due to an increased number of our employees.

Social insurance expenses consist of mandatory social insurance contributions paid under applicable laws and regulations and contributions to supplemental medical insurance schemes we provide to our employees. Social insurance and housing allowances increased by 16.7% from RMB48 million for the six months ended June 30, 2014 to RMB56 million for the six months ended June 30, 2015, primarily as a result of an increased number of our employees and an adjustment to the basis of such contributions.

Staff welfare expenses increased by 12.5% from RMB16 million for the six months ended June 30, 2014 to RMB18 million for the six months ended June 30, 2015. Contributions to annuity funds increased by 31.8% from RMB22 million for the six months ended June 30, 2014 to RMB29 million for the six months ended June 30, 2015. These expenses increased as a result of an increase in our total salaries, as staff welfares and contributions to annuity funds are based on certain percentages of total salary.

Staff education expenses increased by 14.3% from RMB7 million for the six months ended June 30, 2014 to RMB8 million for the six months ended June 30, 2015, reflecting our continued efforts on staff training and development.

Property and Equipment Expenses

Property and equipment expenses represented 19.5% and 25.6% of our total operating expenses for the six months ended June 30, 2014 and 2015, respectively.

The following table sets forth, for the periods indicated, the components of our property and equipment expenses.

	For the six months ended June 30,	
	2014 (unaudited)	2015
	(in millions of RMB)	
Depreciation and amortization	114	140
Electronic equipment operating expenses	28	33
Maintenance expenses	22	19
Total property and equipment expenses	**164**	**192**

Our property and equipment expenses increased by 17.1% from RMB164 million for the six months ended June 30, 2014 to RMB192 million for the six months ended June 30, 2015, primarily reflecting our overall business growth and the expansion of our branch and sub-branch network and the upgrading of our information technology systems.

Business Taxes and Surcharges

Business tax is levied at 5% primarily on our interest income from loans to customers and our gross fee and commission income. In addition, certain surcharges are levied within Shandong Province at aggregate rates of 13% of the amount of our business tax paid. Business taxes and surcharges increased by 5.8% from RMB139 million for the six months ended June 30, 2014 to RMB147 million for the six months ended June 30, 2015.

Other General and Administrative Expenses

Other general and administrative expenses consist primarily of incidental expenses, expenses on automobiles, marketing expenses and printing expenses. Our other general and administrative expenses decreased by 10.4% from RMB154 million for the six months ended June 30, 2014 to RMB138 million for the six months ended June 30, 2015, primarily as a result of our efforts to reduce our administrative and office expenses, as well as our reduction of advertising expenses on traditional media.

Provisions for Impairment Losses

The following table sets forth, for the periods indicated, the principal components of our provisions for impairment losses.

	For the six months ended June 30,	
	2014 (unaudited)	2015
	(in millions of RMB)	
Provisions for impairment losses on:		
Loans to customers	180	220
Financial investments:		
Investment classified as receivables	—	20
Others[(1)]	1	1
Total	**181**	**241**

(1) Consists primarily of provisions for impairment losses on other receivables.

Provisions for impairment losses increased by 33.1% from RMB181 million for the six months ended June 30, 2014 to RMB241 million for the six months ended June 30, 2015, primarily due to an increase in our provisions for impairment losses on our loans to customers.

Net provisions for impairment losses on our loans to customers increased by 22.2% from RMB180 million for the six months ended June 30, 2014 to RMB220 million for the six months ended June 30, 2015, primarily as a result of an increase in our loans to customers and our non-performing loans. For details on changes in our allowance for loan losses, see "Assets and Liabilities—Assets—Allowance for Impairment Losses on Loans to Customers".

We made provisions of RMB20 million for impairment losses on our investments classified as receivables for the six months ended June 30, 2015, based on our collective assessment of these investments for impairment.

Income Tax Expenses

The following table sets forth, for the periods indicated, the reconciliation between the income tax expenses calculated at the statutory income tax rate applicable to our profit before tax and our actual income tax expenses.

	For the six months ended June 30,	
	2014 (unaudited)	2015
	(in millions of RMB)	
Profit before tax	1,197	1,408
Income tax calculated at statutory tax rate of 25.0%	299	352
Add/(less) the tax effect of the following items:		
Items not deductible for tax purpose[(1)]	3	5
Income not subject to tax[(2)]	(15)	(23)
Income tax expense	**287**	**334**

(1) Consists primarily of items not deductable for tax purposes such as entertainment expenses, annuity, medical insurance, and others.

(2) Consists primarily of interest income from PRC government bonds and municipal bonds.

Our income tax expenses increased by 16.4% from RMB287 million for the six months ended June 30, 2014 to RMB334 million for the six months ended June 30, 2015, primarily due to the increases in our profit before tax. Our effective income tax rate was 24.0% and 23.7% for the six months ended June 30, 2014 and 2015, respectively.

The following table sets forth, for the periods indicated, the components of our income tax expenses.

	For the six months ended June 30,	
	2014 (unaudited)	2015
	(in millions of RMB)	
Current income tax	331	328
Deferred income tax	(44)	6
Total income tax expenses	**287**	**334**

Net Profit

Primarily as a result of all of the foregoing factors, our net profit increased by 18.0% from RMB910 million for the six months ended June 30, 2014 to RMB1,074 million for the six months ended June 30, 2015.

RESULTS OF OPERATION FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 AND 2014

The following table sets forth, for the years indicated, our condensed results of operation.

	For the year ended December 31,		
	2012	2013	2014
	(in millions of RMB, except otherwise indicated)		
Interest income	4,501	6,119	7,595
Interest expense	(1,894)	(3,031)	(3,999)
Net interest income	2,607	3,088	3,596
Fee and commission income	253	456	721
Fee and commission expense	(17)	(31)	(32)
Net fee and commission income	236	425	689
Net trading gains	21	7	34
Net gains arising from investments	5	1	11
Other operating income(1)	18	35	35
Operating income	2,887	3,556	4,365
Operating expenses	(1,380)	(1,689)	(1,995)
Pre-provision operating profit	1,507	1,867	2,370
Impairment losses	(284)	(348)	(412)
Profit before tax	1,223	1,519	1,958
Income tax expense	(303)	(377)	(463)
Net profit	**920**	**1,142**	**1,495**

(1) Consists primarily of net gains on disposal of property and equipment, rental income and certain other operating income.

Our net profit for the year ended December 31, 2012, 2013 and 2014 was RMB920 million, RMB1,142 million and RMB1,495 million, respectively, growing at a CAGR of 27.5%, primarily due to an increase in our pre-provision operating profit. Our pre-provision operating profit was RMB1,507 million, RMB 1,867 million and RMB2,370 million in 2012, 2013 and 2014, respectively, growing at a CAGR of 25.4%, primarily due to increases in our net interest income and net fee and commission income, which were partially offset by an increase in our operating expenses.

Net Interest Income

Net interest income is the largest component of our operating income, representing 90.3%, 86.8% and 82.4% of our operating income for the years ended December 31, 2012, 2013 and 2014, respectively.

The following table sets forth, for the years indicated, our interest income, interest expense and net interest income.

	For the years ended December 31,		
	2012	2013	2014
	(in millions of RMB)		
Interest income	4,501	6,119	7,595
Interest expense	(1,894)	(3,031)	(3,999)
Net interest income	**2,607**	**3,088**	**3,596**

Our net interest income increased by 18.5% from RMB2,607 million in 2012 to RMB3,088 million in 2013, primarily due to a 35.9% increase in interest income, which was partially offset by a 60.0% increase in interest expense. Our net interest income increased by 16.5% from RMB3,088 million in 2013 to RMB3,596 million in 2014, primarily due to a 24.1% increase in interest income, which was partially offset by a 31.9% increase in interest expense.

The following table sets forth, for the years indicated, the daily average balances of our interest-earning assets and interest-bearing liabilities and the related interest income or expense and the related average yields on assets or related average costs of liabilities.

	For the year ended December 31,								
	2012			2013			2014		
	Average balance	Interest income/ expense	Average yield/ cost	Average balance	Interest income/ expense	Average yield/ cost	Average balance	Interest income/ expense	Average yield/ cost
	(in millions of RMB, except percentages)								
Interest-earning assets									
Loans to customers	39,273	2,892	7.36%	51,529	3,512	6.82%	59,624	3,942	6.61%
Fixed income investments[(1)]	21,430	882	4.12	35,023	1,581	4.51	52,241	2,644	5.06
Deposits with central bank[(2)]	13,234	202	1.53	17,077	263	1.54	19,549	303	1.55
Deposits with banks and other financial institutions	3,257	98	3.01	4,439	160	3.60	5,031	206	4.09
Financial assets held under resale agreements	6,751	325	4.81	11,763	521	4.43	9,611	437	4.55
Placements with banks and other financial institution	1,733	102	5.89	1,794	82	4.57	1,869	63	3.37
Total interest-earning assets	**85,678**	**4,501**	**5.25%**	**121,625**	**6,119**	**5.03%**	**147,925**	**7,595**	**5.13%**
Interest-bearing liabilities									
Deposits from customers	65,973	1,366	2.07	86,402	1,842	2.13	98,990	2,224	2.25
Deposits from banks and other financial institutions	2,927	151	5.16	10,323	495	4.80	16,828	889	5.28
Financial assets sold under repurchase agreements	8,283	324	3.91	10,809	436	4.03	13,651	533	3.90
Placements from banks and other financial institutions	2,038	53	2.60	2,223	49	2.20	2,771	54	1.95
Debt securities issued	—	—	—	4,125	197	4.78	5,827	279	4.79
Borrowings from central bank	—	—	—	507	12	2.37	844	20	2.37
Total interest-bearing liabilities	**79,221**	**1,894**	**2.39%**	**114,389**	**3,031**	**2.65%**	**138,911**	**3,999**	**2.88%**
Net interest income		**2,607**			**3,088**			**3,596**	
Net interest spread[(3)]			**2.86%**			**2.38%**			**2.25%**
Net interest margin[(4)]			**3.04%**			**2.54%**			**2.43%**

(1) Consists of our holdings of fixed income products classified as financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, and investments classified as receivables.

(2) Consists primarily of statutory deposit reserves and surplus deposit reserves.

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

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

The following table sets forth, for the years indicated, the allocation of changes in our interest income and interest expense due to changes in volume and changes in rate. Changes in volume are measured by changes in the daily average balances and changes in rate are measured by changes in the average rates. Changes caused by both volume and rate have been allocated to changes in volume.

	For the year ended December 31,					
	2013 vs. 2012			2014 vs. 2013		
	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)					
Assets						
Loans to customers	836	(216)	620	538	(108)	430
Fixed income investments(4)	615	84	699	870	193	1,063
Deposits with central bank(5)	59	2	61	38	2	40
Deposits with banks and other financial institutions	43	19	62	24	22	46
Financial assets held under resale agreements	222	(26)	196	(98)	14	(84)
Placements with banks and other financial institutions	3	(23)	(20)	3	(22)	(19)
Changes in interest income	1,778	(160)	1,618	1,375	101	1,476
Liabilities						
Deposits from customers	436	40	476	283	99	382
Deposits from banks and other financial institutions	355	(11)	344	343	51	394
Financial assets sold under repurchase agreements	102	10	112	111	(14)	97
Placements from banks and other financial institutions	4	(8)	(4)	11	(6)	5
Debt securities issued	197	—	197	82	—	82
Borrowings from central bank	12	—	12	8	—	8
Changes in interest expense	**1,106**	**31**	**1,137**	**838**	**130**	**968**
Changes in net interest income	**672**	**(191)**	**481**	**537**	**(29)**	**508**

(1) Represents the daily average balance for the year minus the daily 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 daily average balance for the previous year.
(3) Represents interest income/expense for the year minus interest income/expense for the previous year.
(4) Consists of our holdings of fixed income products classified as financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, and investments classified as receivables.
(5) Consists primarily of statutory deposit reserves and surplus deposit reserves.

Interest Income

The following table sets forth, for the years indicated, the breakdown of our interest income.

	For the year ended December 31,					
	2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Interest income from						
Loans to customers						
Corporate loans	2,222	49.4%	2,632	43.0%	2,920	38.4%
Personal loans	670	14.9	880	14.4	1,022	13.5
Subtotal	2,892	64.3	3,512	57.4	3,942	51.9
Fixed income investments(1)	882	19.5	1,581	25.9	2,644	34.8
Financial assets held under resale agreements	325	7.2	521	8.5	437	5.8
Deposits with central bank	202	4.5	263	4.3	303	4.0
Deposits with banks and other financial institutions	98	2.2	160	2.6	206	2.7
Placements with banks and other financial institutions	102	2.3	82	1.3	63	0.8
Total interest income	**4,501**	**100.0%**	**6,119**	**100.0%**	**7,595**	**100.0%**

(1) Consists of interest income from our holdings of fixed income products classified as financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, and investments classified as receivables.

Our interest income increased by 35.9% from RMB4,501 million in 2012 to RMB6,119 million in 2013, primarily due to a 42.0% increase in the average balance of interest-earning assets from RMB85,678 million in 2012 to RMB121,625 million in 2013, reflecting our overall business growth, which was partially offset by a decrease in the average yield on our interest-earning assets from 5.25% in 2012 to 5.03% in 2013, primarily as a result of a decrease in the average yield on our loans to customers.

Our interest income increased by 24.1% from RMB6,119 million in 2013 to RMB7,595 million in 2014, primarily due to a 21.6% increase in the average balance of interest-earning assets from RMB121,625 million in 2013 to RMB147,925 million in 2014 as a result of our overall business growth.

Interest Income from Loans to Customers

Interest income from loans to customers is the largest component of our interest income, representing 64.3%, 57.4% and 51.9% of our interest income in 2012, 2013 and 2014, respectively.

The following table sets forth, for the years indicated, the daily average balance, interest income and average yield for each component of our loans to customers.

	For the year ended December 31,								
	2012			2013			2014		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
	(in millions of RMB, except percentages)								
Corporate loans	30,341	2,222	7.32%	39,010	2,632	6.75%	45,063	2,920	6.48%
Personal loans	8,932	670	7.50	12,519	880	7.03	14,561	1,022	7.02
Total loans to customers	**39,273**	**2,892**	**7.36%**	**51,529**	**3,512**	**6.82%**	**59,624**	**3,942**	**6.61%**

Our interest income from loans to customers increased by 21.4% from RMB2,892 million in 2012 to RMB3,512 million in 2013, which in turn increased by 12.2% to RMB3,942 million in 2014. The continued increase in interest income from loans to customers from 2012 to 2014 was primarily due to a year-on-year increase in the average balance of our total loans to customers, reflecting our overall business growth, partially offset by a decrease in the average yield on loans to customers. The average balance of our total loans to customers was RMB39,273 million, RMB51,529 million and RMB59,624 million in 2012, 2013 and 2014, respectively. The average yield on our loans to customers was 7.36%, 6.82% and 6.61% in 2012, 2013 and 2014, respectively. The decrease in the average yield on loans to customers from 2012 to 2014 was primarily due to the decrease in the benchmark interest rate and increased competition.

The largest component of our interest income from loans to customers has been interest income from corporate loans, representing 76.8%, 74.9% and 74.1% of our total interest income from loans to customers for the years ended December 31, 2012, 2013 and 2014, respectively.

Corporate Loans. Our interest income from corporate loans increased by 18.5% from RMB2,222 million in 2012 to RMB2,632 million in 2013, which in turn increased by 10.9% to RMB2,920 million in 2014. The continued increase in interest income from corporate loans from 2012 to 2014 was primarily due to a year-on-year increase in the average balance of our corporate loans, which was partially offset by a decrease in the average yield on our corporate loans. The average balance of our corporate loans increased by 28.6% from RMB30,341 million in 2012 to RMB39,010 million in 2013, which in turn increased by 15.5% to RMB45,063 million in 2014, primarily because we opened new branches and sub-branches outside Qingdao, where the demand for corporate loans was strong. The average yield on our corporate loans was 7.32%, 6.75% and 6.48% in 2012, 2013 and 2014, respectively. The decrease in the average yield on corporate loans was primarily due to the decrease in the PBoC benchmark interest rate and increased competition in the banking industry within Shandong Province.

Personal Loans. Interest income from personal loans increased by 31.3% from RMB670 million in 2012 to RMB880 million in 2013, primarily due to a 40.2% increase in the average balance of our personal loans from RMB8,932 million in 2012 to RMB12,519 million in 2013, as a result of our efforts to grow our retail banking business, partially offset by a decrease in the average yield on our personal loans from 7.50% in 2012 to 7.03% in 2013. The decrease in the average yield on our personal loans primarily reflected the decrease in the PBoC benchmark interest rate and increased competition in the banking industry within Shandong Province. Our interest income from personal loans increased by 16.1% from RMB880 million in 2013 to RMB1,022 million in 2014, primarily due to a 16.3% increase in the average balance of our personal loans from RMB12,519 million in 2013 to RMB14,561 million in 2014, primarily as a result of our increased efforts to grow our retail banking business.

Interest Income from Fixed Income Investments

Our interest income from fixed income investments consists of interest income from our holdings of fixed income products classified as financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investment classified as receivables. Interest income from fixed income investments is the second largest component of our interest income, representing 19.5%, 25.9% and 34.8% of our interest income in 2012, 2013 and 2014, respectively.

Our interest income from fixed income investments increased by 79.3% from RMB882 million in 2012 to RMB1,581 million in 2013, primarily due to a 63.4% increase in the average balance of our fixed income investments from RMB21,430 million in 2012 to RMB35,023 million in 2013, accompanied by an increase in the average yield on our fixed income investments from 4.12% in 2012 to 4.51% in 2013. The increase in the average balance of our fixed income investments was primarily due to our increased holding of trust fund plans and asset management plans. The increase in the average yield on our fixed income investments was primarily attributable to the relatively high return on trust fund plans and asset management plans.

Our interest income from fixed income investments increased by 67.2% from RMB1,581 million in 2013 to RMB2,644 million in 2014, primarily due to a 49.2% increase in the average balance of our fixed income investments from RMB35,023 million in 2013 to RMB52,241 million in 2014, accompanied by an increase in the average yield on our fixed income investments from 4.51% in 2013 to 5.06% in 2014. The increase in the average balance of our fixed income investments was primarily due to our increased holding of trust fund plans, asset management plans, financial bonds issued by commercial banks and certificates of interbank deposit. The increase in the average yield on our fixed income investments was primarily attributable to the relatively high return on our holding of trust fund plans and asset management plans.

Interest Income from Deposits with Central Bank

Our interest-earning balances of our deposits with central bank consist primarily of statutory deposit reserves and surplus deposit reserves with PBoC. Statutory deposit reserves represent the minimum level of cash deposits that we are required to maintain at PBoC, calculated as a percentage of the balance of our general deposits from customers. Surplus deposit reserves are deposits with PBoC in excess of statutory deposit reserves, which we maintain for clearing purposes.

Our interest income from deposits with central bank increased by 30.2% from RMB202 million in 2012 to RMB263 million in 2013, which in turn increased by 15.2% to RMB303 million in 2014. The continued increase in our interest income from our deposits with central bank was primarily due to a year-on-year increase in the average balance of our deposits with central bank. The average balance of our deposits with central bank increased by 29.0% from RMB13,234 million in 2012 to RMB17,077 million in 2013, which in turn increased by 14.5% to RMB19,549 million in 2014, primarily due to the increase in our customer deposits.

Interest Income from Deposits with Banks and Other Financial Institutions

Interest income from deposits with banks and other financial institutions represented 2.2%, 2.6% and 2.7% of our interest income in 2012, 2013 and 2014, respectively.

Our interest income from deposits with banks and other financial institutions increased by 63.3% from RMB98 million in 2012 to RMB160 million in 2013, primarily due to a 36.3% increase in the average balance of our deposits with banks and other financial institutions from RMB3,257 million in 2012 to RMB4,439 million in 2013, accompanied by an increase in the average yield on these deposits from 3.01% in 2012 to 3.60% in 2013. The increase in the average balance of our deposits with banks and other financial institutions primarily reflected our overall business growth. The increase in the average yield on these deposits primarily reflected the increased interest rates on the interbank market in the second half of 2013.

Our interest income from deposits with banks and other financial institutions increased by 28.8% from RMB160 million in 2013 to RMB206 million in 2014, primarily due to a combination of a 13.3% increase in the average balance of our deposits with banks and other financial institutions from RMB4,439 million in 2013 to RMB5,031 million in 2014 and an increase in the average yield on these deposits from 3.60% in 2013 to 4.09% in 2014.

Interest Income from Financial Assets Held under Resale Agreements

Interest income from financial assets held under resale agreements represented 7.2%, 8.5% and 5.8% of our interest income in 2012, 2013 and 2014, respectively.

Our interest income from financial assets held under resale agreements increased by 60.3% from RMB325 million in 2012 to RMB521 million in 2013, primarily due to a 74.2% increase in the average balance of our financial assets held under resale agreements from RMB6,751 million in 2012 to RMB11,763 million in 2013, which was partially offset by a decrease in the average yield on our financial assets held under resale agreements from 4.81% in 2012 to 4.43% in 2013. The increase in the average balance of our financial assets held under resale agreements was primarily due to our increased holding of bonds and bank acceptance bills under resale agreements in 2013. The decrease in the average yield on our financial assets held under resale agreements was primarily due to a decrease in bill rediscounting rates as a result of the increased market liquidity during the second half of 2012 and the first half of 2013.

Our interest income from financial assets held under resale agreements decreased by 16.1% from RMB521 million in 2013 to RMB437 million in 2014, primarily due to a 18.3% decrease in the average balance of our financial assets held under resale agreements from RMB11,763 million in 2013 to RMB9,611 million in 2014, which was partially offset by an increase in the average yield on our financial assets held under resale agreements from 4.43% in 2013 to 4.55% in 2014. The decrease in the average balance of our financial assets held under resale agreements was primarily due to a decrease in our holding of bonds and bank acceptance bills under resale agreements as a result of our increased allocation of funds into higher yielding assets. The increase in the average yield on our financial assets held under resale agreements was primarily due to an increase in the bill rediscounting rates, reflecting the impact of the increased market interest rates on the yields on our assets in light of the interest rate liberalization.

Interest Income from Placements with Banks and Other Financial Institutions

Interest income from placements with banks and other financial institutions represented 2.3%, 1.3% and 0.8% of our interest income in 2012, 2013 and 2014, respectively.

Our interest income from placements with banks and other financial institutions decreased by 19.6% from RMB102 million in 2012 to RMB82 million in 2013, primarily due to a decrease in the average yield on our placements with banks and other financial institutions from 5.89% in 2012 to 4.57% in 2013. The decrease in the average yield on our placements with banks and other financial institutions primarily due to the alteration of the duration mix of our placements with banks and other financial institutions as a part of our liquidity management.

Our interest income from placements with banks and other financial institutions decreased by 23.2% from RMB82 million in 2013 to RMB63 million in 2014, primarily due to a decrease in the average yield on our placements with banks and other financial institutions from 4.57% in 2013 to 3.37% in 2014.

Interest Expense

The following table sets forth, for the years indicated, the breakdown of our interest expense.

	For the year ended December 31,					
	2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Interest expense on						
Deposits from customers	1,366	72.1%	1,842	60.8%	2,224	55.6%
Deposits from banks and other financial institutions	151	8.0	495	16.3	889	22.2
Financial assets sold under repurchase agreements	324	17.1	436	14.4	533	13.3
Placements from banks and other financial institutions	53	2.8	49	1.6	54	1.4
Debt securities issued	—	—	197	6.5	279	7.0
Borrowings from central bank	—	—	12	0.4	20	0.5
Total interest expense	**1,894**	**100.0%**	**3,031**	**100.0%**	**3,999**	**100.0%**

Our interest expense increased by 60.0% from RMB1,894 million in 2012 to RMB3,031 million in 2013, primarily due to a 44.4% increase in the average balance of our interest-bearing liabilities from RMB79,221 million in 2012 to RMB114,389 million in 2013, as a result of the increases in all types of our interest-bearing liabilities.

Our interest expense increased by 31.9% from RMB3,031 million in 2013 to RMB3,999 million in 2014, primarily due to a 21.4% increase in the average balance of our interest-bearing liabilities from RMB114,389 million in 2013 to RMB138,911 million in 2014, accompanied by an increase in the average cost of our interest-bearing liabilities from 2.65% in 2013 to 2.88% in 2014. The increase in the average balance of our interest-bearing liabilities resulted from the increases in all types of our interest-bearing liabilities, particularly, our customer deposits and deposits from banks and other financial institutions. The increase in the average cost of our interest-bearing liabilities was primarily attributable to the increases in the average cost of deposits from customers and deposits from banks and other financial institutions.

Interest Expense on Deposits from Customers

Deposits from customers are our primary source of funding. However, interest expense on deposits from customers decreased as a percentage of our total interest expense, in line with the decrease in our customer deposit as a percentage of our total liabilities, resulting from more diversified financing instruments available on the financial market. Interest expense on deposits from customers represented 72.1%, 60.8% and 55.6% of our total interest expense for the years ended December 31, 2012, 2013 and 2014, respectively.

The following table sets forth, for the years indicated, the daily average balance, interest expense and average cost of our customer deposits by product type.

	For the year ended December 31,								
	2012			2013			2014		
	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost
	(in millions of RMB, except percentages)								
Corporate deposits									
Time	24,101	691	2.87%	29,450	786	2.67%	31,949	854	2.67%
Demand	24,666	181	0.73	28,183	186	0.66	30,302	217	0.72
Subtotal	48,767	872	1.79	57,633	972	1.69	62,251	1,071	1.72
Personal deposits									
Time	11,640	401	3.45	22,372	765	3.42	27,220	943	3.46
Demand	3,991	17	0.43	4,600	18	0.39	5,634	22	0.39
Subtotal	15,631	418	2.67	26,972	783	2.90	32,854	965	2.94
Other deposits[(1)]	1,575	76	4.83	1,797	87	4.84	3,885	188	4.84
Total deposits from customers	**65,973**	**1,366**	**2.07%**	**86,402**	**1,842**	**2.13%**	**98,990**	**2,224**	**2.25%**

(1) Consists primarily of principal-protected wealth management products, which we classify as deposits from customers pursuant to PBoC rules.

Our interest expense on deposits from customers increased by 34.8% from RMB1,366 million in 2012 to RMB1,842 million in 2013, which in turn increased by 20.7% to RMB2,224 million in 2014, primarily due to increases in both the average balance of, and the average cost of, our deposits from customers. The average balance of our customer deposits increased by 31.0% from RMB65,973 million in 2012 to RMB86,402 million in 2013, which in turn increased by 14.6% to RMB98,990 million in 2014, resulting primarily from the expansion of our distribution network and our increased efforts to grow retail banking business. The average cost of our customer deposits increased from 2.07% in 2012 to 2.13% in 2013, which in turn increased to 2.25% in 2014. The increase in the average cost of our customer deposits resulted primarily from us raising interest rates on certain Renminbi-denominated deposits in response to the increased competition, as the PBoC lifted the interest rate cap for Renminbi-denominated deposits while lowering the benchmark interest rates.

Interest Expense on Deposits from Banks and Other Financial Institutions

Interest expense on deposits from banks and other financial institutions represented 8.0%, 16.3% and 22.2% of our interest expense in 2012, 2013 and 2014, respectively.

Our interest expense on deposits from banks and other financial institutions more than tripled from RMB151 million in 2012 to RMB495 million in 2013, primarily due to a significant increase in the average balance of our deposits from banks and other financial institutions from RMB2,927 million in 2012 to RMB10,323 million in 2013, which was partially offset by a decrease in the average cost of these deposits from 5.16% in 2012 to 4.80% in 2013.

Our interest expense on deposits from banks and other financial institutions increased by 79.6% from RMB495 million in 2013 to RMB889 million in 2014, primarily due to a 63.0% increase in the average balance of our deposits from banks and other financial institutions from RMB10,323 million in

2013 to RMB16,828 million in 2014, accompanied by an increase in the average cost of our deposits from banks and other financial institutions from 4.80% in 2013 to 5.28% in 2014. The increase in the average balance of our deposits from banks and other financial institutions resulted primarily from our efforts to expand interbank customer base and financing channels. The increase in the average cost of our deposits from banks and other financial institutions resulted primarily from the relatively longer tenor of the deposits from banks and other financial institutions.

Interest Expense on Financial Assets Sold under Repurchase Agreements

Interest expense on financial assets sold under repurchase agreements represented 17.1%, 14.4% and 13.3% of our interest expense in 2012, 2013 and 2014, respectively.

Our interest expense on financial assets sold under repurchase agreements increased by 34.6% from RMB324 million in 2012 to RMB436 million in 2013, primarily due to a 30.5% increase in the average balance of our financial assets sold under repurchase agreements from RMB8,283 million in 2012 to RMB10,809 million in 2013. The increases in the average balance of our financial assets sold under repurchase agreements primarily reflected our increased funding needs to fund our expanded financial asset portfolios.

Our interest expense on financial assets sold under repurchase agreements increased by 22.2% from RMB436 million in 2013 to RMB533 million in 2014, primarily due to a 26.3% increase in the average balance of our financial assets sold under repurchase agreements from RMB10,809 million in 2013 to RMB13,651 million in 2014, which was partially offset by a decrease in the average cost of our financial assets sold under repurchase agreements from 4.03% in 2013 to 3.90% in 2014.

Interest Expense on Placements from Banks and Other Financial Institutions

Interest expense on placements from banks and other financial institutions represented 2.8%, 1.6% and 1.4% of our total interest expense in 2012, 2013 and 2014, respectively.

Our interest expense on placements from banks and other financial institutions decreased by 7.5% from RMB53 million in 2012 to RMB49 million in 2013, primarily due to a decrease in the average cost of these placements from 2.60% in 2012 to 2.20% in 2013, which was partially offset by a 9.1% increase in the average balance of our placements from banks and other financial institutions from RMB2,038 million in 2012 to RMB2,223 million in 2013. The increase in the average balance of placements from banks and other financial institutions was primarily attributable to an increase in foreign currency-denominated placements from banks and other financial institutions. The decrease in the average cost of placements from banks and other financial institutions resulted primarily from a decrease in the market interest rates for U.S. dollar-denominated borrowings since the second half of 2012.

Our interest expense on placements from banks and other financial institutions increased by 10.2% from RMB49 million in 2013 to RMB54 million in 2014, primarily due to a 24.7% increase in the average balance of these placements from RMB2,223 million in 2013 to RMB2,771 million in 2014, which was partially offset by a decrease in the average cost from 2.20% in 2013 to 1.95% in 2014.

Interest Expense on Debt Securities Issued

Interest expense on debt securities issued represented nil, 6.5% and 7.0% of our interest expense in 2012, 2013 and 2014, respectively.

In 2012, we did not have any debt securities issued. Our interest expense on debt securities issued increased by 41.6% from RMB197 million in 2013 to RMB279 million in 2014, primarily due to a 41.3% increase in the average balance of our debt securities issued from RMB4,125 million in 2013 to RMB5,827 million in 2014 as a result of our issuances of certificates of deposit on the interbank market in 2014. We issued financial bonds in an aggregate principal amount of RMB5.0 billion at fixed interest rates in March 2013. See "Assets and Liabilities—Liabilities and Sources of Funds—Other Components of Our Liabilities".

Interest Expense on Borrowings from Central Bank

Interest expense on borrowings from central bank represented nil, 0.4% and 0.5% of our interest expenses in 2012, 2013 and 2014, respectively.

We did not have any borrowings from central bank in 2012. Our interest expense on borrowings from central bank increased by 66.7% from RMB12 million in 2013 to RMB20 million in 2014, primarily due to a 66.5% increase in the average balance of our borrowings from central bank from RMB507 million in 2013 to RMB844 million in 2014, primarily reflecting our increased needs for foreign currency-denominated funding to support our lending business including working capital loans denominated in foreign currencies.

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 daily average balance of total interest-earning assets.

Our net interest spread decreased from 2.86% in 2012 to 2.38% in 2013, because the average cost of our interest-bearing liabilities increased by 26 basis points while the average yield on our interest-earning assets decreased by 22 basis points. Our net interest margin decreased from 3.04% in 2012 to 2.54% in 2013, because our net interest income increased by 18.5% in 2013, lower than the 42.0% increase in the average balance of our interest-earning assets. The decrease in our net interest margin and net interest spread was primarily due to a combination of (i) a decrease in the average yield on our customer loans; (ii) a decrease in the average yield on our financial assets purchased under resale agreements and placements with banks and other financial institutions; and (iii) an increase in the average cost of our most interest-bearing liabilities.

Our net interest spread decreased from 2.38% in 2013 to 2.25% in 2014, because the average cost on our interest-bearing liabilities increased by 23 basis points, higher than the 10 basis points increase in the average yield on our interest-earning assets. Our net interest margin decreased from 2.54% in 2013 to 2.43% in 2014, because our net interest income increased by 16.5% in 2014, lower than the 21.6% increase in the average balance of our interest-earning assets. The decrease in our net interest margin and net interest spread were primarily due to a combination of (i) a decrease in the average yield on our customer loans and placements with banks and other financial institutions; and (ii) an increase in the average cost of customer deposits and deposits from banks and other financial institutions.

Net Fee and Commission Income

Net fee and commission income represented 8.2%, 12.0% and 15.8% of our total operating income for the years ended December 31, 2012, 2013 and 2014, respectively. The following table sets forth, for the years indicated, the principal components of our net fee and commission income.

	For the years ended December 31,		
	2012	2013	2014
	(in millions of RMB)		
Fee and commission income			
Settlement fees	193	203	328
Agency service fees	18	78	206
Custody Service fees	7	77	107
Wealth management service fees	5	54	39
Bank card service fees	14	17	19
Others(1)	16	27	22
Subtotal	253	456	721
Fee and commission expenses	(17)	(31)	(32)
Net fee and commission income	**236**	**425**	**689**

(1) Consists primarily of guarantee fees, corporate account management fees and fees from financial consulting.

Our net fee and commission income increased by 80.1% from RMB236 million in 2012 to RMB425 million in 2013, which in turn increased by 62.1% to RMB689 million in 2014, resulting primarily from our continued efforts to grow fee- and commission-based business.

Fee and Commission Income

Our fee and commission income increased by 80.2% from RMB253 million in 2012 to RMB456 million in 2013, which in turn increased by 58.1% to RMB721 million in 2014.

Settlement Fees

Settlement fees consist primarily of fees earned on settlement and clearing services in respect of bank drafts, commercial drafts, promissory notes and checks, as well as fees earned on money transfers and clearing services. Our settlement fees increased by 5.2% from RMB193 million in 2012 to RMB203 million in 2013, which in turn increased by 61.6% to RMB328 million in 2014, primarily attributable to the rapid growth in our trade finance business.

Agency Service Fees

Agency service fees consist primarily of fees earned on agency services provided for asset management plans. Agency service fees more than quadrupled from RMB18 million in 2012 to RMB78 million in 2013, which in turn more than a double to RMB206 million in 2014, primarily due to an increase in our agency services provided.

Custody Service Fees

Custody service fees consist primarily of fees from our custody services provided for trust fund plans. Custody service fees increased significantly from RMB7 million in 2012 to RMB77 million in 2013, which in turn increased by 39.0% to RMB107 million in 2014, primarily due to an increase in the trust fund plans that we provided custody services to.

Wealth Management Service Fees

Wealth management service fees consist primarily of fees and commissions received for wealth management services provided to our corporate and retail customers. Our wealth management service fees increased significantly from RMB5 million in 2012 to RMB54 million in 2013, primarily due to an increase in our wealth management products issued. Our wealth management service fees decreased by 27.8% from RMB54 million in 2013 to RMB39 million in 2014, primarily due to a decrease in the commission rate for our wealth management products as a result of increased competition.

Bank Card Service Fees

Bank card service fees consist primarily of transaction fees from merchants on the use of our bank cards. Bank card service fees increased by 21.4% from RMB14 million in 2012 to RMB17 million in 2013, which in turn increased by 11.8% to RMB19 million in 2014, primarily due to an increase in our bank cards issued.

Fee and Commission Expense

Fee and commission expenses consist primarily of fees paid to third parties in connection with our fee- and commission-based services that can be directly allocated to the provision of such services. Our fee and commission expenses increased from RMB17 million in 2012 to RMB31 million in 2013, primarily due to increases in fee and commission expenses relating to our bank cards and fee and commission expenses relating to our wealth management products. Our fee and commission expenses remained effectively stable at RMB31 million and RMB32 million in 2013 and 2014, respectively.

Other Component of our Operating Income

The following table sets forth, for the years indicated, other components of our operating income.

	For the years ended December 31,		
	2012	2013	2014
	(in millions of RMB)		
Net trading gains	21	7	34
Net gains arising from investments	5	1	11
Other operating income[1]	18	35	35
Total	**44**	**43**	**80**

(1) Consists of net gains on disposal of property and equipment, rental income and certain other operating income or expenses.

Net Trading Gains

Net trading gains consist primarily of gains arising from the buying and selling of, and changes in the fair value of, debt securities at fair value through profit or loss, and gains from purchase and sale of foreign currency spot. Our net trading gains decreased by 66.7% from RMB21 million in 2012 to RMB7 million in 2013, primarily due to decreases in net gains from debt securities at fair value through profit or loss as a result of a decrease in our investments in bonds held for trading and a decrease in net foreign exchange gains. Our net trading gains increased significantly from RMB7 million in 2013 to RMB34 million in 2014, primarily due to an increase in our net foreign exchange gains, reflecting an increase in the exchange rate of U.S. dollars against Renminbi.

Net Gains Arising from Investments

Net gains arising from investments consist primarily of net realized gains on disposal of our available-for-sale financial assets and dividends from available-for-sale equity investments. Our net gains arising from investments decreased by 80.0% from RMB5 million in 2012 to RMB1 million in 2013, which in turn increased significantly to RMB11 million in 2014, primarily attributable to changes in the amount of available-for-sale financial assets we disposed of in those years.

Other Operating Income

Other operating income consists primarily of net gains on disposal of property and equipment, rental income, and certain other operating income. Our other net operating income amounted to RMB18 million, RMB35 million and RMB35 million in 2012, 2013 and 2014, respectively.

Operating Expenses

The following table sets forth, for the years indicated, the principal components of our total operating expenses.

	For the years ended December 31,		
	2012	2013	2014
	(in millions of RMB)		
Staff costs	621	767	959
Property and equipment expenses	247	298	377
Business tax and surcharges	180	229	266
Other general and administrative expenses[1]	332	395	393
Total operating expenses	**1,380**	**1,689**	**1,995**
Cost-to-income ratio[2]	**41.57%**	**41.06%**	**39.61%**

(1) Consists primarily of incidental expenses, expenses on automobiles, marketing expenses, and printing expenses.
(2) Calculated by dividing (i) total operating expenses, excluding business tax and surcharges, by (ii) total operating income.

Our operating expenses increased by 22.4% from RMB1,380 million in 2012 to RMB1,689 million in 2013, which in turn increased by 18.1% to RMB1,995 million in 2014. Our cost-to-income ratio (excluding business tax and surcharges) was 41.57%, 41.06% and 39.61% in 2012, 2013 and 2014, respectively. The decrease in our cost-to-income ratio from 2012 to 2014 was primarily due to the increase in our total operating income.

Staff Costs

Staff costs are the largest component of our operating expenses, representing 45.0%, 45.4% and 48.1% of our total operating expenses for the years ended December 31, 2012, 2013 and 2014, respectively.

The following table sets forth, for the years indicated, the components of our staff costs.

	For the years ended December 31,		
	2012	2013	2014
	(in millions of RMB)		
Salaries, bonuses and allowances	407	527	691
Social insurance and housing allowances	101	115	104
Staff welfare expenses	57	64	74
Contributions to annuity funds	29	34	44
Staff education expenses	10	13	17
Labor union expenses	8	6	14
Others[(1)]	9	8	15
Total staff costs	**621**	**767**	**959**

(1) Consists primarily of labor protection expenses.

Staff costs increased by 23.5% from RMB621 million in 2012 to RMB767 million in 2013, which in turn increased by 25.0% to RMB959 million in 2014, primarily due to increases in salaries, bonuses and allowances as well as most other categories of staff costs as a result of the increased number of our employees.

Salaries, bonuses and allowances are the largest component of our staff costs, representing 65.5%, 68.7% and 72.1% of our total staff costs in 2012, 2013 and 2014, respectively. Salaries, bonuses and allowances increased by 29.5% from RMB407 million in 2012 to RMB527 million in 2013, which in turn increased by 31.1% to RMB691 million in 2014, primarily due to the increased number of our employees.

Social insurance expenses consist of mandatory social insurance contributions paid under applicable laws and regulations and contributions to supplemental medical insurance schemes we provide to our employees. Social insurance and housing allowances are the second largest component of our staff costs, representing 16.3%, 15.0% and 10.8% of our total staff costs in 2012, 2013 and 2014, respectively. Social insurance and housing allowances increased by 13.9% from RMB101 million in 2012 to RMB115 million in 2013, primarily due to increased number of our employees. Social insurance and housing allowances decreased by 9.6% from RMB115 million in 2013 to RMB104 million in 2014, primarily as a result of adjustment in our supplemental medical insurance scheme.

Staff welfare expenses increased by 12.3% from RMB57 million in 2012 to RMB64 million in 2013, which in turn increased by 15.6% to RMB74 million in 2014. Contributions to annuity funds increased by 17.2% from RMB29 million in 2012 to RMB34 million in 2013, which in turn increased by 29.4% to RMB44 million in 2014. The increases in staff welfare expenses and contributions to annuity funds from 2012 to 2014 resulted primarily from an increase in our total salaries, as these categories of staff costs are set at certain percentages of salaries.

Staff education expenses increased by 30.0% from RMB10 million in 2012 to RMB13 million in 2013, which in turn increased by 30.8% to RMB17 million in 2014. The increases in staff education expenses reflected our continued efforts to train and develop our staff.

Property and Equipment Expenses

Property and equipment expenses represented 17.9%, 17.6% and 18.9% of our total operating expenses in 2012, 2013 and 2014, respectively.

The following table sets forth, for the years indicated, the components of our property and equipment expenses.

	For the years ended December 31,		
	2012	2013	2014
	(in millions of RMB)		
Depreciation and amortization	152	189	240
Electronic equipment operating expenses	56	54	76
Maintenance expenses	39	55	61
Total property and equipment expenses	**247**	**298**	**377**

Our property and equipment expenses increased by 20.6% from RMB247 million in 2012 to RMB298 million in 2013, which in turn increased by 26.5% to RMB377 million in 2014, primarily due to increases in almost all categories of property and equipment expenses. These expenses increased in line with our overall business growth, as well as the expansion of our branch and sub-branch network and the upgrading of our information technology systems.

Business Taxes and Surcharges

Business tax is levied at 5% primarily on our interest income from loans to customers and our gross fee and commission income. In addition, certain surcharges are levied within Shandong Province at aggregate rates of 13% of the amount of our business tax paid. Business tax and surcharges increased by 27.2% from RMB180 million in 2012 to RMB229 million in 2013, which in turn increased by 16.2% to RMB266 million in 2014, primarily due to an increase in our income subject to business tax and surcharges.

Other General and Administrative Expenses

Other general and administrative expenses consist primarily of incidental expenses, expenses on automobiles, marketing expenses and printing expenses. Our other general and administrative expenses increased by 19.0% from RMB332 million in 2012 to RMB395 million in 2013, primarily as a result of our overall business growth. Other general and administrative expenses remained effectively stable at RMB393 million in 2014.

Provisions for Impairment Losses

The following table sets forth, for the years indicated, the principal components of our provisions for impairment losses.

	For the years ended December 31,		
	2012	2013	2014
	(in millions of RMB)		
Provisions for impairment losses on:			
Loans to customers	283	347	360
Financial investments:			
Investments classified as receivables	—	—	50
Others[(1)]	1	1	2
Total	**284**	**348**	**412**

(1) Consists primarily of provisions for impairment losses on other receivables.

Our provisions for impairment losses was RMB284 million, RMB348 million and RMB412 million in 2012, 2013 and 2014, respectively, representing at a CAGR of 20.4%.

Provisions for impairment losses increased by 22.5% from RMB284 million in 2012 to RMB348 million in 2013, primarily attributable to an increase in our provision for impairment losses on our loans to customers. Provisions for impairment losses increased by 18.4% from RMB348 million in 2013 to RMB412 million in 2014, primarily due to provisions for impairment losses on investments classified as receivables of RMB50 million charged in 2014 attributable to our provisions for trust fund plans and asset management plans for which we collectively assessed impairment losses.

Net provisions for impairment losses on loans to customers increased by 22.6% from RMB283 million in 2012 to RMB347 million in 2013, which in turn increased by 3.7% to RMB360 million in 2014, primarily as a result of an increase in our loans to customers and non-performing loans.

For details on changes in our allowance for loan losses, see "Assets and Liabilities—Assets—Allowance for Impairment Losses on Loans to Customers".

Income Tax Expenses

The following table sets forth, for the years indicated, the reconciliation between the income tax expenses calculated at the statutory income tax rate applicable to our profit before tax and our actual income tax expenses.

	For the years ended December 31,		
	2012	2013	2014
	(in millions of RMB)		
Profit before tax	**1,223**	**1,519**	**1,958**
Income tax calculated at statutory tax rate of 25.0%	306	380	490
Add/(less) the tax effect of the following items:			
Items not deductible for tax purpose[(1)]	13	11	5
Income not subject to tax[(2)]	(16)	(14)	(32)
Income tax expense	**303**	**377**	**463**

(1) Consists primarily of items not deductable for tax purposes such as entertainment expenses, annuity, medical insurance, and others.
(2) Consists primarily of interest income from PRC government bonds and municipal bonds.

Our income tax expenses increased by 24.4% from RMB303 million in 2012 to RMB377 million in 2013, which in turn increased by 22.8% to RMB463 million in 2014, primarily due to the increases in our profit before tax. Our effective income tax rate was 24.8%, 24.8% and 23.6% in 2012, 2013 and 2014, respectively.

The following table sets forth, for the years indicated, the components of our income tax expenses.

	For the years ended December 31,		
	2012	2013	2014
	(in millions of RMB)		
Current income tax	328	449	535
Deferred income tax	(25)	(72)	(72)
Total income tax expenses	**303**	**377**	**463**

Net Profit

Primarily as a result of all the foregoing factors, our net profit increased by 24.1% from RMB920 million in 2012 to RMB1,142 million in 2013, which in turn increased by 30.9% to RMB1,495 million in 2014.

SUMMARY OF SEGMENT OPERATING RESULTS

Summary Business Segment Information

We have three principal business activities: corporate banking business, retail banking business and financial market business. See "Business—Our Principal Business Lines". The following table sets forth, for the years indicated, our operating results for each of our principal business segments.

	For the year ended December 31,															For the six months ended June 30,									
	2012					2013					2014					2014 (unaudited)					2015				
	Corporate banking	Retail banking	Financial market operation	Others[1]	Total	Corporate banking	Retail banking	Financial market operation	Others[1]	Total	Corporate banking	Retail banking	Financial market operation	Others[1]	Total	Corporate banking	Retail banking	Financial market operation	Others[1]	Total	Corporate banking	Retail banking	Financial market operation	Others[1]	Total
	(in millions of RMB)																								
Net external interest income[2]	1,491	230	886	—	**2,607**	1,782	143	1,163	—	**3,088**	1,924	90	1,582	—	**3,596**	1,001	55	717	—	**1,773**	1,116	28	806	—	**1,950**
Inter-segment interest income/ (expense)[3]	307	208	(515)	—	—	247	456	(703)	—	—	187	742	(929)	—	—	76	357	(433)	—	—	33	386	(419)	—	—
Net interest income	1,798	438	371	—	**2,607**	2,029	599	460	**—**	**3,088**	2,111	832	653	**—**	**3,596**	1,077	412	284	—	**1,773**	1,149	414	387	—	**1,950**
Net fee and commission income	210	15	11	—	**236**	240	60	125	—	**425**	350	51	288	—	**689**	227	23	167	—	**417**	158	87	148	—	**393**
Net trading gains	—	—	21	—	**21**	—	—	7	—	**7**	—	—	34	—	**34**	—	—	21	—	**21**	—	—	12	—	**12**
Net gains arising from investments	—	—	5	—	**5**	—	—	1	—	**1**	—	—	11	—	**11**	—	—	7	—	**7**	—	—	36	—	**36**
Other operating income	—	—	—	18	**18**	1	1	—	33	**35**	(1)	(1)	—	37	**35**	—	—	—	(1)	**(1)**	—	—	—	8	**8**
Operating income	2,008	453	408	18	**2,887**	2,270	660	593	33	**3,556**	2,460	882	986	37	**4,365**	1,304	435	479	(1)	**2,217**	1,307	501	583	8	**2,399**
Operating expenses	(926)	(311)	(143)	—	**(1,380)**	(1,067)	(424)	(198)	—	**(1,689)**	(1,121)	(561)	(313)	—	**(1,995)**	(494)	(219)	(126)	—	**(839)**	(418)	(203)	(129)	—	**(750)**
Impairment losses	(247)	(37)	—	—	**(284)**	(320)	(28)	—	—	**(348)**	(333)	(29)	(50)	—	**(412)**	(168)	(13)	—	—	**(181)**	(196)	(25)	(20)	—	**(241)**
Profit before tax	**835**	**105**	**265**	**18**	**1,223**	**883**	**208**	**395**	**33**	**1,519**	**1,006**	**292**	**623**	**37**	**1,958**	**642**	**203**	**353**	**(1)**	**1,197**	**693**	**273**	**434**	**8**	**1,408**

(1) Consists primarily of income and expenses that are not directly attributable to any specific segment.
(2) Consists of net interest income from outside clients or activities.
(3) Consists of net interest income/(expense) attributable to transactions with other segments.

The following table sets forth, for the years indicated, the operating income of each of our principal business segments.

	For the year ended December 31,						For the six months ended June 30,			
	2012		2013		2014		2014 (unaudited)		2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)									
Corporate banking	2,008	69.6%	2,270	63.8%	2,460	56.4%	1,304	58.8%	1,307	54.5%
Retail banking	453	15.7	660	18.6	882	20.2	435	19.6	501	20.9
Financial market business	408	14.1	593	16.7	986	22.6	479	21.6	583	24.3
Others[(1)]	18	0.6	33	0.9	37	0.8	(1)	—	8	0.3
Total	**2,887**	**100.0%**	**3,556**	**100.0%**	**4,365**	**100.0%**	**2,217**	**100.0%**	**2,399**	**100.0%**

(1) Consists primarily of income and expenses that are not directly attributable to any specific segment.

Corporate banking has historically been our primary source of income, representing 69.6%, 63.8%, 56.4% and 54.5% of our total operating income in 2012, 2013 and 2014 and for the six months ended June 30, 2015, respectively. Operating income from our corporate banking business increased by 13.0% from RMB2,008 million in 2012 to RMB2,270 million in 2013, which in turn increased by 8.4% to RMB2,460 million in 2014, primarily reflecting the overall growth of our corporate banking business. Our operating income from corporate banking business remained effectively stable at RMB1,304 million and RMB1,307 million for the six months ended June 30, 2014 and 2015, respectively.

Operating income from our retail banking business represented 15.7%, 18.6%, 20.2% and 20.9% of our total operating income in 2012, 2013 and 2014 and for the six months ended June 30, 2015, respectively. Operating income from our retail banking business increased by 45.7% from RMB453 million in 2012 to RMB660 million in 2013, which in turn increased by 33.6% to RMB882 million in 2014. Our retail banking business recorded an operating income of RMB501 million for the six months ended June 30, 2015, representing a 15.2% increase compared to RMB435 million for the six months ended June 30, 2014. The continued increase in operating income from our retail banking business, both in absolute terms and as a percentage of our total operating income, resulted primarily from our continued efforts to grow our retail banking business.

Operating income from our financial market business represented 14.1%, 16.7%, 22.6% and 24.3% of our total operating income in 2012, 2013 and 2014 and for the six months ended June 30, 2015, respectively. Operating income from our financial market business increased by 45.3% from RMB408 million in 2012 to RMB593 million in 2013, which in turn increased by 66.3% to RMB986 million in 2014. Our financial market business recorded an operating income of RMB583 million for the six months ended June 30, 2015, representing a 21.7% increase compared to RMB479 million for the six months ended June 30, 2014. The continued increase in operating income from our financial market business, both in absolute terms and as a percentage of our total operating income, was primarily attributable to our continued efforts to grow our financial market business and to expand sources of non-interest income.

CASH FLOWS

The following table sets forth our cash flows for the years indicated. See Appendix I—"Accountants' Report—A. Financial Information of the Bank—IV. Cash Flow Statements".

	For the year ended December 31,			For the six months ended June 30,	
	2012	2013	2014	2014 (unaudited)	2015
	(in millions of RMB)				
Net cash generated from/(used in) operating activities	9,818	10,374	11,196	6,523	(3,220)
Net cash generated from/(used in) investing activities	(4,541)	(21,264)	(12,866)	(5,560)	(7,296)
Net cash generated from/(used in) financing activities	(366)	4,806	2,865	(440)	9,982
Effect of exchange rate changes on cash and cash equivalents	—	6	1	2	—
Net increase/(decrease) in cash and cash equivalents	**4,911**	**(6,078)**	**1,196**	**525**	**(534)**

Cash Flows Generated from/(Used in) Operating Activities

Cash inflows from operating activities are primarily attributable to the net increases in deposits from customers and deposits from banks and other financial institutions, as well as interest income we receive in cash. The net increase in our deposits from customers was RMB14,835 million, RMB20,636 million, RMB5,450 million and RMB237 million in 2012, 2013 and 2014 and for the six months ended June 30, 2015, respectively. The net increase in our deposits from banks and other financial institutions was RMB1,117 million, RMB9,736 million and RMB7,809 million in 2012, 2013 and 2014, respectively. Net decrease in our deposits from banks and other financial institutions was RMB319 million for the six months ended June 30, 2015. We received interest income in cash of RMB3,587 million, RMB4,443 million, RMB4,913 million and RMB2,442 million in 2012, 2013 and 2014 and for the six months ended June 30, 2015, respectively.

Cash outflows from operating activities are primarily attributable to the net increase in loans to customers and deposits with central bank. The net increase in our loans to customers was RMB11,483 million, RMB9,935 million, RMB7,500 million and RMB7,094 million in 2012, 2013 and 2014 and for the six months ended June 30, 2015, respectively. For a discussion on increases in our loans to customers from December 31, 2012 to June 30, 2015, see "Assets and Liabilities—Assets—Loans to Customers". Net increase in our deposits with central bank amounted to RMB3,930 million, RMB3,994 million and RMB2,431 million in 2012, 2013 and 2014, respectively. Net decrease in our deposits with central bank was RMB2,309 million for the six months ended June 30, 2015.

Primarily as a result of the foregoing, our net cash generated from operating activities increased by 5.7% from RMB9,818 million in 2012 to RMB10,374 million in 2013, which in turn increased by 7.9% to RMB11,196 million in 2014. Our net cash used in operating activities amounted to RMB3,220 million for the six months ended June 30, 2015, while our net cash generated from operating activities amounted to RMB6,523 million for the six months ended June 30, 2014.

Cash Flows Generated from/(Used in) Investing Activities

Our cash outflows from investing activities are primarily attributable to payments on acquisition of investment securities and other financial assets. We used cash of RMB6,993 million, RMB28,841 million, RMB32,867 million and RMB25,616 million in 2012, 2013 and 2014 and for the six months ended June 30, 2015, respectively, to purchase investment securities and other financial assets.

Cash inflows from investing activities are primarily attributable to proceeds from disposal and redemption of investments and returns on investments received. Proceeds from disposal and redemption of investments amounted to RMB2,822 million, RMB6,744 million, RMB17,918 million and RMB16,780 million in 2012, 2013 and 2014 and for the six months ended June 30, 2015 respectively. We received net cash from investment gains of RMB860 million, RMB1,364 million, RMB2,450 million and RMB1,690 million in 2012, 2013 and 2014 and for the six months ended June 30, 2015, respectively.

Cash Flows Generated from/(Used in) Financing Activities

Our cash inflows from financing activities are primarily attributable to net proceeds from debt securities issued. We issued financial bonds with fixed interest rates in an aggregate principal amount of RMB5.0 billion in March 2013. We issued a number of certificates of interbank deposit with an aggregate principal amount of RMB5.1 billion in 2014. We issued tier-two capital bonds with an aggregate principal amount of RMB2.2 billion in March 2015 and certain certificates of interbank deposit with an aggregate principal amount of RMB14.3 billion for the six months ended June 30, 2015. Net proceeds from debt securities issued amounted to RMB4,984 million, RMB5,005 million and RMB16,294 million in 2013 and 2014 and for the six months ended June 30, 2015, respectively.

Our cash outflows from financing activities are primarily attributable to repayment of debt securities issued and dividend payments. We repaid our certificates of interbank deposit in the amount of RMB1,700 million in cash in 2014 and repaid our certificates of interbank deposit in the amount of RMB7,300 million in cash for the six months ended June 30, 2015. Our dividend payments in cash amounted to RMB366 million, RMB179 million, RMB205 million and RMB777 million in 2012, 2013 and 2014 and for the six months ended June 30, 2015, respectively.

LIQUIDITY

We fund our loans and investment portfolios principally through our customer deposits. Although a majority of our deposits from customers have been short-term deposits, customer deposits have been, and we believe will continue to be, a stable source of our funding. Customer deposits with remaining maturities of less than one year represented 89.9%, 90.0%, 88.0% and 85.6% of total deposits from customers as of December 31, 2012, 2013 and 2014 and June 30, 2015, respectively. For additional information about our short-term liabilities and sources of funds, see "Assets and Liabilities—Liabilities and Sources of Funds" and "Supervision and Regulation—Other Operational and Risk Management Ratios".

We manage liquidity by monitoring the maturities of our assets and liabilities in an effort to ensure that we have sufficient funds to meet obligations as they become due. We do not, nor are we required to, maintain cash resources to meet all the demands for cash payments, and based on our experience, a majority of the maturing deposits will be rolled over. We also maintain certain amount of cash and surplus deposit reserve, as well as certain financing ability on the interbank market to meet any unexpected liquidity requirements. See "Risk Management—Liquidity Risk Management".

The following table sets forth, as of June 30, 2015, the remaining maturities of our assets and liabilities.

	As of June 30, 2015							
	Undated	Repayable on demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years	Total
	(in millions of RMB)							
Assets								
Cash and deposits with central bank	17,417	4,135	—	—	—	—	—	21,552
Deposits with banks and other financial institutions	—	1,109	549	734	620	—	—	3,012
Placements with banks and other financial institutions	—	—	746	611	—	—	—	1,357
Financial assets held under resale agreements	—	—	467	549	—	—	—	1,016
Loans to customers, net	1,562	628	3,282	8,304	28,792	11,461	14,107	68,136
Investment securities and other financial assets, net	23	—	3,224	5,270	15,216	36,389	9,843	69,965
Others[(1)]	3,326	42	216	256	519	12	—	4,371
Total assets	**22,328**	**5,914**	**8,484**	**15,724**	**45,147**	**47,862**	**23,950**	**169,409**
Liabilities								
Borrowings from central bank	—	—	49	528	7	458	—	1,042
Deposits from banks and other financial institutions	—	1,885	3,617	3,303	9,439	1,800	—	20,044
Placements from banks and other financial institutions	—	—	2,488	122	122	—	—	2,732
Financial assets sold under repurchase agreements	—	—	8,949	—	—	—	—	8,949
Deposits from customers	—	36,854	12,928	13,344	24,130	14,573	142	101,971
Debt securities issued	—	—	2,994	2,807	6,620	2,894	2,193	17,508
Others[(2)]	14	1,860	1,339	326	740	710	59	5,048
Total liabilities	**14**	**40,599**	**32,364**	**20,430**	**41,058**	**20,435**	**2,394**	**157,294**
Liquidity gap	**22,314**	**(34,685)**	**(23,880)**	**(4,706)**	**4,089**	**27,427**	**21,556**	**12,115**
Cumulative liquidity gap	**22,314**	**(12,371)**	**(36,251)**	**(40,957)**	**(36,868)**	**(9,441)**	**12,115**	

(1) Consists primarily of properties and equipment, deferred tax assets and certain other assets.
(2) Consists primarily of income taxes payable and certain other liabilities.

CAPITAL RESOURCES

Shareholders' Equity

Our total shareholders' equity increased by 10.3% from RMB7,437 million as of December 31, 2012 to RMB8,205 million as of December 31, 2013, which in turn increased by 19.3% from RMB9,785 million as of December 31, 2014. Our total shareholders' equity further increased to RMB12,115 million as of June 30, 2015. The following table sets forth, for the periods indicated, the components of the changes in our total equity attributable to shareholders.

	Shareholders' equity
	(in millions of RMB)
As of December 31, 2011	**6,958**
Profit for the year	920
Other comprehensive income	(75)
Dividend payment	(366)
As of December 31, 2012	**7,437**
Profit for the year	1,142
Other comprehensive income	(195)
Dividend payment	(179)
As of December 31, 2013	**8,205**
Profit for the year	1,495
Other comprehensive income	289
Dividend payment	(204)
As of December 31, 2014	**9,785**
Profit for the period	1,074
Other comprehensive income	34
Change in equity	
— contribution by owners	2,000
Dividend payment	(778)
As of June 30, 2015	**12,115**

In February 2015, we issued 556 million new shares with a nominal value of RMB1.00 each through a private placement at a price of RMB3.60 per share to 11 existing shareholders and three new shareholders. See "Our History and Development—Our History—Changes in Registered Capital". The premium from the newly-issued shares of RMB1,444 million was recorded as capital reserve.

Debt

Financial Bonds Issued

In March 2013, to raise funds for our loans to small and micro enterprises, we issued financial bonds in an aggregate principal amount of RMB5.0 billion, including (i) fixed rate financial bonds in an aggregate principal of RMB2.1 billion with a maturity date of March 5, 2016 and a coupon rate of 4.6% per annum, and (ii) fixed rate financial bonds in an aggregate principal of RMB2.9 billion with a maturity of March 5, 2018 and a coupon rate of 4.8% per annum.

In March 2015, we issued tier-two capital bonds in an aggregated principal amount of RMB2.2 billion with a fixed interest rate of 5.59%. These tier-two capital bonds have a final maturity date of March 5, 2025, with a option to redeem on March 5, 2020.

Certificates of Interbank Deposit Issued

We issued a number of certificates of interbank deposit in an aggregate principal amount of RMB5.1 billion with maturities of three to six months in 2014.

We issued a number of certificates of interbank deposit in an aggregate principal amount of RMB14.3 billion with maturities of three months to one year for the six months ended June 30, 2015. As of June 30, 2015, the carrying value and fair value of our outstanding certificates of interbank deposit we issued was RMB10,322 million and RMB10,151 million, respectively.

Capital Adequacy

We are subject to capital adequacy requirements as promulgated by CBRC. We shall maintain our capital adequacy ratio above the minimum level required by CBRC during the transitional period.

The following table sets forth, as of the dates indicated, certain information relating to our capital adequacy ratio, calculated in accordance with the Capital Adequacy Measures and PRC GAAP.

	As of December 31, 2012
	(in millions of RMB, except percentages)
Core capital	
Share capital	2,556
Capital reserve	2,759
Surplus reserve	360
General reserve	868
Retained earnings	715
Total core capital	7,258
Supplement capital	
General provision for loan impairment losses	468
Total supplementary capital	468
Total capital base before deductions	**7,726**
Deduction	(18)
Net capital base	**7,708**
Net core capital base	**7,249**
Risk weighted assets	**56,240**
Core capital adequacy ratio	**12.89%**
Capital adequacy ratio	**13.70%**

The following table sets forth, as of the dates indicated, certain information relating to our capital adequacy ratio, calculated in accordance with the Capital Administrative Measures and PRC GAAP.

	As of December 31,		As of June 30,	
	2013	2014	2014 (unaudited)	2015
	(in millions of RMB, except percentages)			
Core tier-one capital				
Share capital	2,556	2,556	2,556	3,112
Qualifying capital reserve	2,565	2,854	2,816	4,332
Surplus reserve	474	623	474	623
General reserve	1,334	1,887	1,334	1,887
Retained earnings	1,276	1,865	1,984	2,161
Core Tier-one capital deductible items				
Other intangible assets (excluding land use rights)	(84)	(115)	(170)	(136)
Net core tier-one capital	**8,121**	**9,670**	**8,994**	**11,979**
Net tier-one capital	**8,121**	**9,670**	**8,994**	**11,979**
Tier-two capital				
Qualifying portion of tier-two capital instruments and related premiums	—	—	—	2,193
Surplus allowance for impairment losses on loans	948	1,023	1,039	989
Net capital base(1)	**9,069**	**10,693**	**10,033**	**15,161**
Total risk-weighted assets	**83,334**	**99,450**	**92,285**	**118,607**
Core tier-one capital adequacy ratio	**9.75%**	**9.72%**	**9.75%**	**10.10%**
Tier-one capital adequacy ratio	**9.75%**	**9.72%**	**9.75%**	**10.10%**
Capital adequacy ratio	**10.88%**	**10.75%**	**10.87%**	**12.78%**

(1) Also referred to in this prospectus as "regulatory capital".

As of December 31, 2013 and 2014 and June 30, 2015, our core tier-one capital adequacy ratio was 9.75%, 9.72% and 10.10%, respectively, our tier-one capital adequacy ratio was 9.75%, 9.72% and 10.10%, respectively, and our capital adequacy ratio was 10.88%, 10.75% and 12.78%, respectively, which were all in compliance with the CBRC requirements.

OFF-BALANCE SHEET COMMITMENTS

Our off-balance sheet commitments consist primarily of bank acceptances, letters of credit, letters of guarantees and loan commitments. Bank acceptances consist of undertakings by us to pay bills of exchange issued by our customers. We issue letters of guarantee and letters of credit to guarantee the performance of our customers to third parties. Loan commitments are our commitments to extend credit. The following table sets forth the contractual amounts of our off-balance sheet commitments as of the dates indicated.

	As of December 31,			As of June 30,
	2012	2013	2014	2015
	(in millions of RMB)			
Bank acceptances	18,622	22,942	17,794	19,566
Letters of credit issued	2,546	3,731	5,013	4,279
Letters of guarantee issued	2,165	2,620	2,088	1,389
Loan commitments				
Contract maturity within one year	570	2,070	367	70
Contract maturity over one year	—	—	162	280
Subtotal	570	2,070	529	350
Unused credit commitments on public services cards	109	161	284	320
Total	**24,012**	**31,524**	**25,708**	**25,904**

Our total off-balance sheet commitments increased by 31.3% from RMB24.0 billion as of December 31, 2012 to RMB31.5 billion as of December 31, 2013, primarily due to increases in bank acceptances, letters of credit and loan commitments, which largely reflected our customers' preferences for these products to support their business activities. Our total off-balance sheet commitments decreased by 18.4% from RMB31.5 billion as of December 31, 2013 to RMB25.7 billion as of December 31, 2014, primarily as a result of a decrease in our customers' demands for bank acceptances and loan commitments and our efforts to reduce certain off-balance sheet assets to control credit risk. Our total off-balance sheet commitments amounted to RMB25.9 billion as of June 30, 2015.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table sets forth the face value of our known contractual obligations by remaining contract maturity classified into the categories specified below as of June 30, 2015. For the remaining maturities of our assets and liabilities as of June 30, 2015, see "— Liquidity".

	As of June 30, 2015			
	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
	(in millions of RMB)			
Certain contractual obligations on balance sheet				
Financial bonds issued	2,098	2,894	—	4,992
Tier-two capital bonds issued	—	—	2,193	2,193
Certificates of interbank deposit issued	10,323	—	—	10,323
Certain contractual obligations not on balance sheet				
Operating lease commitment	86	311	267	664
Redemption obligation (bearer-form government bonds and saving treasury bonds underwritten)	573	1,993	—	2,566
Capital commitments authorized or contracted for	194	224	—	418
Total	**13,274**	**5,422**	**2,460**	**21,156**

RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into transactions with certain of our related parties, such as taking deposits from, extending credit facilities to and providing other banking services to, the relevant related parties. These transactions were conducted on normal commercial terms and in the ordinary course of our business. Our Directors believe that these related party transactions were carried out on an arm's-length basis and would not distort our results of operation during the Track Record Period or make such results not reflective of our future performance. See Note 2(18) to the Accountants' Report attached hereto as Appendix I — "Accountants' Report" to this prospectus.

QUANTITATIVE AND QUALITATIVE ANALYSIS OF MARKET RISK

Market risk is the risk of financial loss arising from changes in the value of a financial instrument as a result of changes in interest rates, foreign exchange rates, equity prices and commodity prices and other market changes that affect market risk-sensitive instruments. We are exposed to market risk primarily through the assets and liabilities on our balance sheet, as well as our off-balance sheet commitments and guarantees. The market risks to which we are primarily exposed are interest rate risk and exchange rate risk. We have imposed a set of exposure limits on our investment and trading activities in an effort to manage potential market losses within acceptable limits.

Interest Rate Risk

The primary source of our interest rate risk arises from mismatches in the maturity or repricing periods of our banking book. Maturity mismatches may cause net interest income to be affected by changes in the prevailing level of interest rates. Currently, we primarily use gap analysis and sensitivity analysis to assess our exposure to interest rate risks. In addition, different pricing bases for different assets and liabilities may also lead to interest rate risk for our assets and liabilities within the same repricing period. We manage our interest rate risk exposure primarily by adjusting the maturity profile and repricing pattern of our banking book based on our assessment of potential changes in the interest rate environment.

Repricing Gap Analysis

The following table sets forth, as of June 30, 2015, the results of our gap analysis based on the earlier of (i) the next expected repricing dates, and (ii) the final maturity dates for our financial assets and liabilities.

	As of June 30, 2015					
	Up to 3 month	3 months up to 1 year	1 year up to 5 years	Over 5 years	Non-interest-bearing	Total
	(in millions of RMB)					
Financial Assets						
Cash and deposits with central bank	20,713	—	—	—	839	21,552
Deposits with banks and other financial institutions	2,392	620	—	—	—	3,012
Placements with banks and other financial institutions	1,357	—	—	—	—	1,357
Financial assets held under resale agreements	1,016	—	—	—	—	1,016
Loans to customers, net	24,198(1)	42,659	1,278	1	—	68,136
Investment securities and other financial assets, net	8,487	15,878	35,734	9,843	23	69,965
Others(2)	—	—	—	—	4,371	4,371
Total assets	**58,163**	**59,157**	**37,012**	**9,844**	**5,233**	**169,409**
Financial Liabilities						
Borrowings from central bank	118	924	—	—	—	1,042
Deposits from banks and other financial institutions	8,805	9,439	1,800	—	—	20,044
Placements from banks and other financial institutions	2,610	122	—	—	—	2,732
Financial assets sold under repurchase agreements	8,949	—	—	—	—	8,949
Deposits from customers	62,961	24,130	14,573	142	165	101,971
Debt securities issued	5,801	6,620	2,894	2,193	—	17,508
Others(3)	—	—	—	—	5,048	5,048
Total liabilities	**89,244**	**41,235**	**19,267**	**2,335**	**5,213**	**157,294**
Repricing gap	**(31,081)**	**17,922**	**17,745**	**7,509**	**20**	**12,115**
Cumulative repricing gap	**(31,081)**	**(13,159)**	**4,586**	**12,095**	**12,115**	

(1) Includes overdue loans of RMB2,190 million.
(2) Consists primarily of properties and equipment, deferred tax assets and certain other assets.
(3) Consists primarily of income taxes payable and certain other liabilities.

Sensitivity Analysis

We use sensitivity analysis to measure the potential effect of changes in interest rates on our net interest income. The following table sets forth, as of the dates indicated, the results of our interest rate sensitivity analysis based on our assets and liabilities at the same date.

	As of December 31,			As of June 30,
	2012	2013	2014	2015
	Change in net interest income	Change in net interest income	Change in net interest income	Change in net interest income
		(in millions of RMB)		
100 basis-point increase	(91)	(90)	(153)	(176)
100 basis-point decrease	91	90	153	176

Based on our assets and liabilities as of June 30, 2015, if interest rates increase (or decrease) by 100 basis points instantaneously, our net interest income for the year following June 30, 2015 would decrease (or increase) by RMB176 million.

This sensitivity analysis, which is based on a static interest rate risk profile of assets and liabilities, is used for risk management purposes only. The analysis measures only the impact of changes in the interest rates within a year, which are reflected by the repricing of our assets and liabilities within a year, on our net interest income. The analysis is based on the following assumptions: (i) all assets and liabilities that are repriced or due within three months and in more than three months but within one year, as shown in the table under "—Repricing Gap Analysis", are repriced or due at the beginning of the respective periods (i.e., all the assets and liabilities that are repriced or due within three months are repriced or due immediately, and all the assets and liabilities that are repriced or due in more than three months but within one year are repriced or due in three months); (ii) there is a parallel shift in the yield curve and in interest rates; and (iii) there are no other changes to the portfolio, and all positions will be retained and rolled over upon maturity. Actual changes in our net interest income resulting from increases or decreases in interest rates may differ from the results of this sensitivity analysis.

Exchange Rate Risk

The primary source of our exchange rate risk arises from currency mismatches in our assets and liabilities. We primarily monitor our net currency positions to assess our exposure to exchange rate risk. We manage our exchange rate risk primarily by seeking to match the assets and liabilities on a currency-by-currency basis.

The following table sets forth, as of the date indicated, our assets and liabilities by currency.

	As of June 30, 2015			
	RMB	US$	Others	Total
	(in millions of RMB equivalent)			
Assets				
Cash and deposits with central bank	21,539	9	4	21,552
Deposits with banks and other financial institutions	1,422	1,570	20	3,012
Placements with banks and other financial institutions	—	1,357	—	1,357
Financial assets held under resale agreements	1,016	—	—	1,016
Loans to customers, net	67,080	1,056	—	68,136
Investment securities and other financial assets, net	69,965	—	—	69,965
Other assets[(1)]	4,360	9	2	4,371
Total assets	**165,382**	**4,001**	**26**	**169,409**
Liabilities				
Borrowings from central bank	125	917	—	1,042
Deposits from banks and other financial institutions	20,013	31	—	20,044
Placements from banks and other financial institutions	—	2,732	—	2,732
Financial assets sold under repurchase agreements	8,949	—	—	8,949
Deposits from customers	101,822	134	15	101,971
Debt securities issued	17,508	—	—	17,508
Other liabilities[(2)]	4,997	51	—	5,048
Total liabilities	**153,414**	**3,865**	**15**	**157,294**
Net balance sheet position	**11,968**	**136**	**11**	**12,115**
Off-balance sheet commitments	**25,739**	**104**	**61**	**25,904**

(1) Consists primarily of properties and equipment, deferred tax assets and certain other assets.
(2) Consists primarily of income taxes payable and certain other liabilities.

The following table sets forth, for the years following the dates indicated, the changes in our annualized net profit caused by the increase or decrease of 100 basis points against Renminbi spot and forward exchange rates for all foreign currencies in the same direction simultaneously as of the date indicated.

	As of December 31,			As of June 30,
	2012	2013	2014	2015
	(in thousands of RMB)			
100 basis point increase	237	343	332	181
100 basis point decrease	(237)	(343)	(332)	(181)

CAPITAL EXPENDITURES

Our capital expenditures for the years ended December 31, 2012, 2013 and 2014 and for the six months ended June 30, 2015 were primarily for the acquisition of properties for and refurbishment of our branch and sub-branches, purchases of self-service banking equipment, and development of our information system.

Our capital expenditures decreased by 55.6% from RMB1,247 million in 2012 to RMB554 million in 2013, which in turn decreased by 25.3% to RMB414 million in 2014. Our capital expenditures were RMB153 million for the six months ended June 30, 2015. As of June 30, 2015, we had authorized capital commitments of RMB418 million, which were all contracted for. The foregoing amounts and purposes may change depending on business conditions.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In the application of our accounting policies described in Note 2 of the Accountants' Report included in Appendix I to this prospectus, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. During the Track Record Period, we consistently adopted these accounting estimates and judgments, and we currently do not expect any significant changes to these estimates and judgments in the foreseeable future.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Impairment Losses on Loans to Customers and Financial Investments (Available-for-sale Financial Assets, Held-to-maturity Investment and Investment Classified as Receivables)

We assess our loan portfolios and financial investments periodically to determine whether there are any objective evidence of the impairment of such assets and, if so, the amount of impairment losses. Such assets are impaired and impairment losses are incurred if, and only if, there are objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and such event(s) has an impact on the estimated future cash flows of the loan or loan portfolio that can be reliably estimated. Objective evidence of impairment includes, but is not limited to the following events:

- observable data showing that there is a measurable decrease in the estimated future cash flow from an individual loan or financial investment,
- observable data showing adverse change in the repayment condition of the obligor or issuer in the portfolio,
- default in payment in the portfolio caused by changes in national or regional economical conditions, or
- for available-for-sale equity investments, significant or prolonged decline in its fair value below its cost, determined with consideration of the historical market fluctuation records and debtors' credit condition, financial position and performance of related industry.

The impairment losses for financial assets that are individually assessed for impairment losses are individually measured as the difference between the assets' carrying value and the present value of the estimated future cash flows.

The impairment losses for financial assets assessed collectively for impairment losses are estimated based on historical loss experience on assets with similar credit risk characteristics, subject to adjustments based on observable data reflecting current economic conditions and management's judgment based on historical experience. The management reviews the method and assumptions used to estimate the future cash flows regularly to minimize the differences between the estimated and actual loss.

Fair Value of Financial Instruments

Fair value for financial instruments quoted in active markets is the market price for such financial instruments. We use valuation techniques for financial instruments that are not quoted in an active market. Valuation techniques include recent arm's length market transactions by referring to the current fair value of similar instruments and discounted cash flow. To the extent practical, our pricing models use only observable data. However, certain inputs to our valuation models are based on the management's best estimates of the future. Changes in assumptions when making these estimates could affect the reported fair value of financial instruments. We review such estimates and assumptions periodically, and make adjustments if necessary, to minimize the differences between the estimated and actual value of financial instruments.

Held-to-maturity Investments

We classify non-derivative financial assets with fixed or determinable payments and fixed maturity that our management has the positive intention and ability to hold to maturity as held-to-maturity investments. This classification requires significant judgment. In making this judgment, we evaluate our management's intention and ability to hold such investments to maturity. If we fail to hold these investments to maturity other than for specific circumstances (such as selling an insignificant amount close to maturity), the entire portfolio of assets will be reclassified as available-for-sale financial assets.

Income Taxes

Determining income tax provisions involves judgment on the future tax treatment of certain transactions. The Bank carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reviewed regularly to take into account all changes in tax legislation. Deferred tax assets are recognized for 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 be available against which deductible temporary differences can be utilized.

Impairment of Non-financial Assets

We assess our non-financial assets periodically for impairment to determine whether the recoverable amount for such assets is below their carrying value. Non-financial assets are deemed impaired, and impairment losses are recognized, if circumstances indicate that the carrying value of such assets may not be fully recovered.

In assessing the present value of future cash flows, significant judgments are exercised over the asset's selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumptions.

Depreciation and Amortization

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. We review the estimated useful lives of our fix assets and intangible assets periodically to determine the depreciation and amortization costs charged in each period. The estimated useful lives are determined based on historical experience of similar assets and the estimated technical changes. The amount of depreciation and amortization will be revised if there are significant changes in the assumptions used to determine the depreciation or amortization.

INDEBTEDNESS

As of October 31, 2015 (being the date for the purpose of this indebtedness statement, before this prospectus is printed), we have the following indebtedness:

- tier-two capital bonds with an aggregate principal amount of RMB2.2 billion issued in March 2015, with a fixed interest rate of 5.59% and a final maturity date of March 5, 2025 and redemption option attached on March 5, 2020;
- financial bonds with an aggregate principal amount of RMB5 billion issued in March 2013, including (i) fixed rate financial bonds in an aggregate principal amount of RMB2.1 billion with a final maturity date of March 5, 2016, the interest rate on which is 4.6%, and (ii) fixed rate financial bonds in an aggregate principal amount of RMB2.9 billion with a final maturity of March 5, 2018, the interest rate on which is 4.8%;
- certificates of interbank deposit in an aggregate principal amount of RMB10,680 million;
- deposits and money market taking from customers and other banks and balances under repurchase agreements that arose from the normal course of our banking business; and
- loan commitments, acceptances, letters of credit and letters of guarantee issued, other commitments and contingencies that arose from the normal course of banking business carried out by us.

Except as disclosed above, we did not have, as of October 31, 2015, any outstanding mortgages, charges, debentures, other debt capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, any guarantees or other material contingent liabilities.

Our Directors have confirmed that there has not been any material change in the indebtedness or contingent liabilities of our Bank since October 31, 2015 up to the date of this prospectus.

RULE 13.13 TO RULE 13.19 OF THE LISTING RULES

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

DIVIDEND POLICY

Our Board of Directors is responsible for submitting proposals (adopted by two-thirds majority) in respect of dividend payments, if any, to the Shareholders' general meeting for approval. The determination of whether to pay dividends and the amount of such dividends is based on our results of operation, cash flows, financial condition, capital adequacy ratios, future business prospects, statutory and regulatory restrictions on the payment of dividends by us and other factors that our Board of Directors considers relevant. Subject to our Articles of Association and laws and regulations on profit distribution by banks, our Board of Directors will recommend dividend payments to our Shareholders' general meetings, where cash dividend shall be no less than 10% of the distributable profit realized for the year. As approved by our Shareholders' general meeting, our current and new shareholders are both entitled to the cumulated retained earnings prior to the Global Offering. Under the PRC Company Law and our Articles of Association, all of our Shareholders holding the same class of shares have equal rights to dividends and other distributions proportionate to their shareholding.

Under PRC laws and our Articles of Association, we may only pay dividends out of our distributable profit. Our distributable profit represents the lowest of (i) our consolidated net profit attributable to our equity holders for a period plus the distributable profit or net of the accumulated losses, if any, at the beginning of such period as determined under PRC GAAP, (ii) the unconsolidated net profit of our Bank for the period plus distributable profit or net of accumulated losses, if any, at the beginning of such period, as determined under PRC GAAP, (iii) our consolidated net profit attributable to our equity holders for the period plus distributable profit or net of accumulated losses, if any, at the beginning of such period, as determined under IFRS, and (iv) the unconsolidated net profit of our Bank for the period plus distributable profit or net of accumulated losses, if any, at the beginning of such period, as determined under IFRS, less:

- appropriations we are required to make to the statutory reserve, which is currently 10% of the unconsolidated net profit of our Bank as determined under PRC GAAP, until such reserve reaches an amount equal to 50% of our registered capital;
- a general reserve we are required to set aside; and
- appropriations to a discretionary surplus reserve as approved by the shareholders in an annual general meeting.

Under relevant MOF regulations, we are required to maintain a general reserve no less than 1.5% of the balance of our risk-bearing assets from our net profits after tax. This general reserve constitutes part of our reserves. As of June 30, 2015, the balance of our general reserve amounted to RMB1,887 million, which were all in compliance with the MOF requirements in respect of appropriation of the general reserve.

Any distributable profit that is not distributed in a given year is retained and available for distribution in subsequent years. However, generally we do not pay any dividends in a year in which we do not have any distributable profit in respect of that year. The payment of any dividends by us must also be approved at a shareholders' general meeting. We are prohibited from making any profit distributions to our Shareholders before recovering our accumulated losses and making appropriations to the statutory surplus reserve, the general reserve, and any discretionary surplus reserve as approved by our Shareholders' general meeting. If we make any profit distributions in violation of these rules, our Shareholders are required to return the amounts they received in such profit distributions to us.

CBRC has the authority to prohibit any bank that fails to meet the relevant capital adequacy ratio requirements, or has violated other relevant PRC banking regulations, from paying dividends or making other forms of distributions. As of June 30, 2015, we had a capital adequacy ratio of 12.78%, a tier-one capital adequacy ratio of 10.10% and a core tier one capital adequacy ratio of 10.10%, which were all in compliance with the relevant CBRC regulations. See "Supervision and Regulation—Supervision over Capital Adequacy—Regulatory Requirements in respect of Capital Adequacy Ratios" and "Supervision and Regulation—Principal Regulators—CBRC—Examination and Supervision".

In May 2013, we declared dividends of RMB179 million for the year ended December 31, 2012. In May 2014, we declared dividends of RMB204 million for the year ended December 31, 2013. In April 2015, we declared dividends of RMB778 million for the year ended December 31, 2014. Declared but unpaid dividends, including dividends payable to Shareholders that we were unable to contact, are recorded as "dividends payable" under "other liabilities" on our financial statements. Dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee when, if and in what form or size dividends will be paid in the future.

LISTING EXPENSES

We incur listing expenses in connection with the Listing, which include professional fees, underwriting commission and fees. Listing expenses to be borne by us are estimated to be approximately RMB137 million. None of the listing expenses were reflected in our statements of profit or loss and other comprehensive income during the Track Record Period. After June 30, 2015, approximately RMB32 million is expected to be charged to our statements of profit or loss and other comprehensive income, and approximately RMB105 million is expected to be accounted for as a deduction from equity. The listing expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate. Our Directors do not expect such expenses to have a material adverse impact on our results of operation for the year ending December 31, 2015.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets is prepared based on our net tangible assets attributable to our Shareholders as of June 30, 2015 derived from our financial information as of June 30, 2015 as set out in the Accountants' Report set forth in Appendix I to this prospectus, adjusted as described below.

The unaudited pro forma statement of adjusted net tangible assets has been prepared to show the effect on our net tangible assets as of June 30, 2015 as if the Global Offering had occurred on June 30, 2015. The unaudited pro forma adjusted net tangible assets per share is calculated in accordance with Rule 4.29 of the Listing Rules.

The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and, as a result, may not be an accurate reflection of our financial position.

	Net tangible assets attributable to our Shareholders as of June 30, 2015	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per share	
	(in millions of RMB)			(RMB)	(HK$)
	Note(1)	Note(2)/(5)	Note(3)	Note(4)	Note(6)
Based on an offer price of HK$4.75 per share	11,979	3,378	15,357	3.83	4.66
Based on an offer price of HK$5.21 per share	11,979	3,710	15,689	3.91	4.76

(1) The net tangible assets attributable to our Shareholders as of June 30, 2015 is based on our total equity of RMB12,115 million less intangible assets of RMB136 million as of June 30, 2015.

(2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK$4.75 per H Share (being the minimum offer price) and HK$5.21 per H Share (being the maximum offer price) and the assumption that there are 900,000,000 newly issued H Shares in the Global Offering, after deduction of the underwriting fees and other expenses related to the Global Offering and takes no account of any shares which may be issued upon the exercise of the Over-allotment Option.

(3) The unaudited pro forma adjusted net tangible assets do not take into account the financial results or other transactions subsequent to June 30, 2015.

(4) The unaudited pro forma adjusted net tangible assets per share is arrived on the basis of 4,011,532,749 outstanding shares assuming that the Global Offering has been completed on June 30, 2015 and that the Over-allotment Option is not exercised.
(5) The estimated net proceeds from the Global Offering are translated into Renminbi at the rate of RMB0.82134 to HK$1.00, the exchange rate set by the PBoC prevailing on November 13, 2015. No representation is made that the Hong Kong Dollar amounts have been, could have been or could be converted to Renminbi at that rate or at any other rate.
(6) The unaudited pro forma adjusted net tangible assets per share is translated into Hong Kong Dollars at exchange rate of RMB0.82134 to HK$1.00. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong Dollars at that rate or at any other rate.

RECENT DEVELOPMENTS AND MATERIAL ADVERSE CHANGE

Our operating income for the nine months ended September 30, 2015 was RMB3,625 million, representing a 8.6% increase as compared to RMB3,337 million for the same period in 2014, primarily due to an increase in our net interest income. Our net interest income increased by 8.3% to RMB2,949 million for the nine months ended September 30, 2015 as compared to RMB2,722 million for the same period in 2014, primarily attributable to an increase in interest income from our investment securities and other financial assets as well as loans to customers, which was partially offset by an increase in interest expenses on debt securities issued and deposits from banks and other financial institutions. Our net fee and commission income increased by 3.5% to RMB593 million for the nine months ended September 30, 2015 as compared to RMB573 million for the same period in 2014, primarily attributable to an increase in our wealth management service fees.

Our total assets amounted to RMB176,560 million as of September 30, 2015, representing a 4.2% increase from RMB169,409 million as of June 30, 2015, primarily attributable to an increase in investment securities and other financial assets. Our total loans to customers (before taking into account the related allowance for impairment losses) amounted to RMB68,539 million as of September 30, 2015, representing a 2.0% decrease from RMB69,959 million as of June 30, 2015, primarily due to a decrease in our corporate loans, which was partially offset by an increase in our personal loans. Our total investment securities and other financial assets (before taking into account the related allowance for impairment losses) amounted to RMB77,170 million as of September 30, 2015, representing a 10.2% increase from RMB70,035 million as of June 30, 2015, primarily due to our increased holding of debt securities as well as wealth management products issued by financial institutions. Our total deposits from customers amounted to RMB108,675 million as of September 30, 2015, representing a 6.6% increase from RMB101,971 million as of June 30, 2015, primarily attributable to an increase in our personal deposits, reflecting our continued efforts to grow our retail banking business. Our total equity amounted to RMB12,672 million as of September 30, 2015, representing a 4.6% increase from RMB12,115 million as of June 30, 2015, primarily attributable to an increase in our retained earnings.

The unaudited financial information as of and for the nine months ended September 30, 2015 has been derived from our interim financial statements as of and for the nine months ended September 30, 2015, which have been reviewed by our reporting accountants in accordance with the Hong Kong Standard on Review Engagement 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

As of September 30, 2015, our core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio as calculated pursuant to the Capital Administrative Measures was 10.44%, 10.44% and 13.15%, respectively, all in compliance with the CBRC requirements.

Our Directors confirm that, since June 30, 2015 and up to the date of this prospectus, there has been no material adverse change in our financial or trading position.

WORKING CAPITAL

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

FUTURE PLANS

See "Business—Our Business Strategies" for a detailed description of our future plans.

USE OF PROCEEDS

Assuming an Offer Price of HK$4.75, being the low-end of the proposed Offer Price range, we estimate that we will receive net proceeds from the Global Offering (after deduction of underwriting commissions and estimated expenses payable by us in relation to the Global Offering) of approximately HK$4,112.8 million, if the Over-allotment Option is not exercised; or of approximately HK$4,738.6 million, if the Over-allotment Option is exercised in full.

Assuming an Offer Price of HK$4.98, being the mid-point of the proposed Offer Price range of HK$4.75 to HK$5.21, we estimate that we will receive net proceeds from the Global Offering (after deduction of underwriting commissions and estimated expenses payable by us in relation to the Global Offering) of approximately HK$4,314.8 million, if the Over-allotment Option is not exercised; or of approximately HK$4,971.0 million, if the Over-allotment Option is exercised in full.

Assuming an Offer Price of HK$5.21, being the high-end of the proposed Offer Price range, we estimate that we will receive net proceeds from the Global Offering (after deduction of underwriting commissions and estimated expenses payable by us in relation to the Global Offering) of approximately HK$4,516.9 million, if the Over-allotment Option is not exercised; or of approximately HK$5,203.3 million, if the Over-allotment Option is exercised in full.

We estimate that the net proceeds from the sale of Sale Shares by the Selling Shareholders pursuant to the Global Offering (after deduction of estimated expenses payable by the Selling Shareholders in relation to the Global Offering), to be:

- approximately HK$427.5 million, if the Over-allotment Option is not exercised, or approximately HK$491.6 million, if the Over-allotment Option is exercised in full, assuming an Offer Price of HK$4.75, being the low-end of the proposed Offer Price range;
- approximately HK$448.2 million, if the Over-allotment Option is not exercised, or approximately HK$515.4 million, if the Over-allotment Option is exercised in full, assuming an Offer Price of HK$4.98, being the mid-point of the proposed Offer Price range; and
- approximately HK$468.9 million, if the Over-allotment Option is not exercised, or approximately HK$539.2 million, if the Over-allotment Option is exercised in full, assuming an Offer Price of HK$5.21, being the high-end of the proposed Offer Price range.

Based on a letter issued by NSSF (She Bao Ji Jin Fa [2015] No. [177]) on November 5, 2015, all the net proceeds from the sale of the Sale Shares by the Selling Shareholders in the Global Offering will be remitted to an account designated by NSSF in accordance with the relevant PRC laws and regulations. We will not receive any of the proceeds from the sale of the Sale Shares by the Selling Shareholders pursuant to the Global Offering.

We intend to use the net proceeds from the Global Offering (after deduction of underwriting commissions and estimated expenses payable by us in relation to the Global Offering) to strengthen our capital base to meet the needs of the continuous growth of our business.

THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements with certain investors (the "**Cornerstone Investors**", and each a "**Cornerstone Investor**"), pursuant to which each of the Cornerstone Investors has agreed to subscribe for, or cause their designated entities to subscribe for either (i) such number of Offer Shares that may be subscribed for with a specified amount in HK$ at the Offer Price (rounded down to the nearest whole board lot) or (ii) a specified number of shares at the Offer Price. Assuming an Offer Price of HK$4.98 (being the mid-point of the indicative Offer Price range stated in this prospectus), the aggregate amount that the Cornerstone Investors have agreed to purchase would be approximately HK$3,370,305,500 (the "**Cornerstone Placing**"). Assuming an Offer Price of HK$4.75 (being the low-end of the Offer Price range shown in this prospectus), the total number of Offer Shares to be subscribed or purchased for by the Cornerstone Investors would be 678,548,500 H Shares, representing approximately (i) 68.54% of the Offer Shares; (ii) 16.91% of the Shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (iii) 16.36% of the Shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option. Assuming an Offer Price of HK$4.98 (being the mid-point of the Offer Price range shown in this prospectus), the total number of Offer Shares to be subscribed or purchased for by the Cornerstone Investors would be 676,768,000 H Shares, representing approximately (i) 68.36% of the Offer Shares; (ii) 16.87% of the Shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (iii) 16.32% of the Shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option. Assuming an Offer Price of HK$5.21 (being the high-end of the Offer Price range shown in this prospectus), the total number of Offer Shares to be subscribed or purchased for by the Cornerstone Investors would be 675,145,000 H Shares, representing approximately (i) 68.20% of the Offer Shares; (ii) 16.83% of the Shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (iii) 16.28% of the Shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option.

To the best knowledge of the Bank, each of the Cornerstone Investors is an independent third party, independent of each other, not our connected person and not an existing Shareholder of the Bank. For each Cornerstone Investor who subscribed for our H Shares through an asset manager that is a qualified domestic institutional investor ("**QDII**"), such asset manager is an independent third party of our Bank and is not a connected client of the lead broker or of any distributors (as defined in paragraph 5 of the Placing Guidelines). Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the allotment results announcement to be issued by the Bank on or around December 2, 2015.

The Cornerstone Placing forms part of the International Offering. The Offer Shares to be subscribed for by the Cornerstone Investors will rank *pari passu* in all respects with the other fully paid Offer Shares in issue and will be counted towards the public float of the Bank. None of the Cornerstone Investors will subscribe for any Offer Shares under the Global Offering (other than and pursuant to the respective cornerstone investment agreements). Immediately following the completion of the Global Offering, none of the Cornerstone Investors will have any board representation in our Bank, nor will any of the Cornerstone Investors become a substantial shareholder of the Bank (as defined under the Listing Rules). The Offer Shares to be subscribed for by the Cornerstone Investors will not be affected by any reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering described in "Structure of the Global Offering—The Hong Kong Public Offering".

Cornerstone Investors

We have entered into cornerstone investment agreements with each of the following Cornerstone Investors in respect of the Cornerstone Placing. The information about our Cornerstone Investors set forth below has been provided by the Cornerstone Investors in connection with the Cornerstone Placing:

1. LRC. Belt and Road Investment Limited

LRC. Belt and Road Investment Limited ("**LRC. Belt and Road**") has agreed to subscribe for 200,000,000 H Shares at the Offer Price. The total number of H Shares that LRC. Belt and Road would subscribe for would represent approximately 20.20% of the Offer Shares, and 4.99% of the Shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option.

LRC. Belt and Road is a company incorporated in the Cayman Islands, and is a joint venture of LRC. Strategic (Global) Investment Group Limited ("**LRC. Global**") and Mr. Soulaimane Htite. LRC. Belt and Road is the principal investment entity of LRC. Global which focuses on investment opportunities in companies serving the Belt and Road initiatives, under the context of an action plan on the China proposed Belt and Road Initiates issued by the National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China, with State Council authorization in March 2015. LRC. Global is a global investment company with expertise in global family office investment and alternative investment products. Mr. Htite is the Co-Founder of LendingClub (NYSE: LC), the world's largest network-based loan platform as well as the founder and chief executive officer of Dianrong.com, a leading Internet finance company in China. Mr. Htite is a worldwide recognized technology expert and has spent most of his professional career building enterprise-level software with Oracle Corporation, and he is focusing on the design of large-scale and real time online services and systems for high availability. Mr. Htite was granted many awards including the prestigious World Economic Forum Technology Pioneer Award in 2011.

2. Jinan Binhe New District Constructive Investment Group

Jinan Binhe New District Constructive Investment Group ("**Binhe New District Constructive Investment**") has agreed to subscribe for through an asset manager that is a QDII, or to procure such asset manager to subscribe on its behalf for 200,000,000 H Shares at the Offer Price. The total number of H Shares that Binhe New District Constructive Investment would subscribe for would represent approximately 20.20% of the Offer Shares, and 4.99% of the Shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option.

Binhe New District Constructive Investment is a company incorporated with limited liability in the PRC and it is wholly and beneficially owned by the Finance Bureau of Jinan. Its principal activities include the management and operation of state-owned capital and state-owned equity interests, and the construction of municipal projects and landscapes.

3. Keystone Group LTD.

Keystone Group LTD. ("**Keystone Group**") has agreed to subscribe for 110,000,000 H Shares at the Offer Price. The total number of H Shares that Keystone Group would subscribe for would represent approximately 11.11% of the Offer Shares, and 2.74% of the Shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option.

Keystone Group is a company incorporated in the Republic of Seychelles, and is the overseas investment arm and offshore wealth management platform of Shenzhen Qianhai Keystone Wealth Management Company Limited ("**Keystone Qianhai Group**"). Keystone Qianhai Group is one of the leading investment institutions and wealth management companies in the Greater Pearl River Delta and Southeast Asia, focusing on equity investments and fixed income investments in key areas including infrastructure and real estates.

4. Rizhao Huaheng Materials Trade Co., Ltd.

Rizhao Huaheng Materials Trade Co., Ltd. ("**Rizhao Huaheng**") has agreed to subscribe for through an asset manager that is a QDII, or to procure such asset manager to subscribe on its behalf for 100,000,000 H Shares at the Offer Price. The total number of H Shares that Rizhao Huaheng would subscribe for would represent approximately 10.10% of the Offer Shares, and 2.49% of the Shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option.

Rizhao Huaheng is a company incorporated with limited liability in the PRC, and Mr. Yue Jingfeng (legal representative) and Mr. Yan Lei hold 40% and 60% equity interest in Rizhao Huaheng, respectively. Rizhao Huaheng's principal activities include the sales of industrial products, construction materials and metallurgical products.

5. Ms. Yuan Shuchun

Ms. Yuan Shuchun ("**Ms. Yuan**"), a PRC citizen, has agreed to subscribe for through an asset manager that is a QDII, or to procure such asset manager to subscribe on her behalf, for such number of Offer Shares (rounded down to the nearest whole board lot of 500 H Shares) that may be purchased with an aggregate amount of HK$183,105,500 (exclusive of a brokerage fee of 1%, a Hong Kong Stock Exchange trading fee of 0.005% and a SFC transaction levy of 0.0027%) at the Offer Price. Assuming an Offer Price of HK$4.98 per Share, being the mid-point of the Offer Price range shown in this prospectus, the total number of H Shares that Ms. Yuan would subscribe for would be 36,768,000 H Shares, representing approximately 3.71% of the Offer Shares, and 0.92% of the Shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option.

Ms. Yuan is a shareholder and general manager of Shandong Jixing Department Store Co., Ltd. (山東吉興商場有限公司), and holds 45% equity interest. Shandong Jixing Department Store Co., Ltd. is a company incorporated with limited liability in the PRC, whose principal activities include the wholesale and retail of general merchandise and clothing articles.

6. Mr. Wu Jishan

Mr. Wu Jishan (**"Mr. Wu"**), a PRC citizen, has agreed to subscribe for through an asset manager that is a QDII, or to procure such asset manager to subscribe on his behalf for 30,000,000 H Shares at the Offer Price. The total number of H Shares that Mr. Wu would subscribe for would represent approximately 3.03% of the Offer Shares, and 0.75% of the Shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option.

Mr. Wu is a general manager of Qingdao Lianxin High & New Technology Co., Ltd. (青島聯信高新技術有限公司), which is a company incorporated with limited liability in the PRC, and its principal activities include computer network engineering, computer net system integration and industrial automatic control system development.

Conditions Precedent

The subscription obligation of each Cornerstone Investor is subject to, among other things, the following conditions precedent (i) the Hong Kong Underwriting Agreement and the International Underwriting Agreement having been entered into and having become effective and unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) and not having been terminated; and (ii) the Listing Committee of the Hong Kong Stock Exchange having granted the Listing of, and permission to deal in, the H Shares and that such approval or permission has not been revoked.

Restrictions on the Cornerstone Investors' Investment

Each of the Cornerstone Investors has agreed that, without the prior written consent of the Bank, the Joint Sponsors and the relevant underwriter(s), it will not, whether directly or indirectly, at any time during the period of six (6) months following the Listing Date, dispose of (as defined in the relevant agreement) any of the H Shares or any interest in any company or entity holding any of the relevant H Shares, other than in certain limited circumstances such as transfers to any wholly owned subsidiary of such Cornerstone Investor provided that, among other things, such wholly owned subsidiary undertakes to, and the Cornerstone Investor undertakes to procure that such subsidiary will, abide by the terms and restrictions imposed on the Cornerstone Investor.

HONG KONG UNDERWRITERS

Goldman Sachs (Asia) L.L.C.
AMTD Asset Management Limited
CLSA Limited
Haitong International Securities Company Limited
ABCI Securities Company Limited
China Merchants Securities (HK) Co., Limited
Guosen Securities (HK) Capital Company Limited
CCB International Capital Limited
Guotai Junan Securities (Hong Kong) Limited
BNP Paribas Securities (Asia) Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Bank is offering initially 99,000,000 Hong Kong Offer Shares (subject to adjustment) for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms at the Offer Price.

Subject to:

- the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in, our H Shares to be offered pursuant to the Global Offering as mentioned herein (including any additional H Shares which may be issued pursuant to the exercise of the Over-allotment Option); and
- to certain other conditions set out in the Hong Kong Underwriting Agreement (which is expected to be entered into on or around the date of this prospectus),

the Hong Kong Underwriters have agreed severally and not jointly to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Offer Shares now being offered which are not taken up under the Hong Kong Public Offering on and subject to the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

One of the conditions is that the Offer Price must be agreed between us, on behalf of ourselves and the Selling Shareholders, and the Joint Global Coordinators, on behalf of the Underwriters. For applicants applying under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering. The International Offering is expected to be fully underwritten by the International Underwriters. If, for any reason, the Offer Price is not agreed between us, on behalf of ourselves and the Selling Shareholders, and the Joint Global Coordinators, on behalf of the Underwriters, the Global Offering will not proceed.

Grounds for Termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination, if, at any time prior to 8:00 a.m. on the day that trading in the H Shares commences on the Hong Kong Stock Exchange:

- there develops, occurs, exists or comes into force:
  - any new law or regulation or any change or development involving a prospective change in existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the PRC, Singapore, the United States, the United Kingdom, the European Union (or any member thereof) or Japan (each a "Relevant Jurisdiction"); or
  - any change or development involving a prospective change or development, or any event or series of events likely to result in or representing a change or development, or prospective change or development, in local, national, regional or international financial, political, military, industrial, economic, currency market, fiscal or regulatory or market conditions or any monetary or trading settlement system (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States in or affecting any Relevant Jurisdiction; or
  - any local, national, regional or international event or series of events in the nature of force majeure (including, without limitation, acts of government, labor disputes, strikes, lock-outs, fire, explosion, flooding, civil commotion, riots, public disorder, acts of war, acts of terrorism (whether or not responsibility has been claimed), acts of God, accident or interruption in transportation, outbreak of diseases, epidemics or pandemics including, but not limited to, SARS, swine or avian flu, H5N1, H1N1, H1N7, H7N9 and such related/mutated forms) in or directly or indirectly affecting any Relevant Jurisdiction; or
  - any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any Relevant Jurisdiction; or
  - the imposition of economic sanctions, or the withdrawal of trading privileges, in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdictions; or
  - any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Singapore Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or the Tokyo Stock Exchange; or
  - any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in any securities of the Bank listed or quoted on a stock exchange or an over-the-counter market; or

- any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent Governmental Authority (as defined in the Hong Kong Underwriting Agreement)), New York (imposed at Federal or New York State level or other competent Governmental Authority), London, Singapore, the PRC, the European Union (or any member thereof), Japan or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any Relevant Jurisdiction; or
- any (A) change or prospective change in exchange controls, currency exchange rates or foreign investment regulations, or (B) any change or prospective change in Taxation (as defined in the Hong Kong Underwriting Agreement) in any Relevant Jurisdiction adversely affecting an investment in the H Shares; or
- non-compliance of the prospectus (or any other documents used in connection with the contemplated offer and sale of the H Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable Laws; or
- the issue or requirement to issue by the Bank of a supplement or amendment to the prospectus, Application Forms, preliminary offering circular or offering circular or other documents in connection with the offer and sale of the H Shares pursuant to the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- any litigation or claim being threatened or instigated against the Bank, any Director or any Supervisor; or
- any contravention by the Bank or any Director or Supervisors of the Companies Ordinance, the Companies (Winding up and Miscellaneous Provisions) Ordinance, the PRC Company Law, the Listing Rules or any applicable Laws; or
- an Governmental Authority or a regulatory body or organization in any Relevant Jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against the Bank, any Director or any Supervisor; or
- any of the chairman or president vacating his office, any Director or any Supervisor being charged with an indictable offence or prohibited by operation of Laws or otherwise disqualified from taking part in the management of a company or the commencement by any governmental, political, regulatory body of any action against any Director or Supervisor in his or her capacity as such or an announcement by any governmental, political, regulatory body that it intends to take any such action; or
- any demand by creditors for repayment of indebtedness (other than indebtedness arising from the ordinary course of business of the Bank) or a petition being presented for the winding-up or liquidation of the Bank or the Bank making any composition or arrangement with its creditors or entering into a scheme of arrangement or any resolution being passed for the winding-up of the Bank or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of the Bank or anything analogous thereto occurs in respect of the Bank; or

- a prohibition on the Bank for whatever reason from allotting or selling the H Shares (including the Over-allotment Option Shares (as defined in the Hong Kong Underwriting Agreement)) pursuant to the terms of the Global Offering,

and which, in any such case individually or in the aggregate, in the sole and absolute opinion of the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters: (A) is or will be or is reasonably expected to be materially adverse to, or materially and prejudicially affects, the assets, liabilities, business, general affairs, management, shareholder's equity, profit, losses, results of operations, position or condition (financial or otherwise), or prospects of the Bank as a whole; or (B) has or will have or is reasonably expected to have a material adverse effect on the success of the Global Offering or the level of Offer Shares being applied for or accepted or subscribed for or purchased or the distribution of Offer Shares and/or has made or is likely to make or will make it impracticable or inadvisable or incapable for any material part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged; or (C) makes or will make or is reasonably expected to make it impracticable or inadvisable or incapable to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by the prospectus, the Application Forms, the formal notice, the preliminary offering circular or the offering circular; or (D) would have or may have the effect of making a part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

- there has come to the notice of the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, Joint Lead Managers or any of the Hong Kong Underwriters after the date of the Hong Kong Underwriting Agreement:

  - that any statement contained in the Hong Kong Public Offering Documents (as defined in the Hong Kong Underwriting Agreement) and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Bank in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was or has become untrue, incomplete or incorrect in any material respect or misleading or any forecasts, estimate, expressions of opinion, intention or expectation expressed in the Hong Kong Public Offering Documents and/or any notices, announcements, advertisements, communications or other documents so issued or used are not fair and honest and made on reasonable grounds or, where appropriate, based on reasonable assumptions, when taken as a whole; or

  - non-compliance of the prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable Law; or

  - any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of the Prospectus, not having been disclosed in the Prospectus, constitute a material omission therefrom; or

  - either (i) there has been a material breach of any of the obligations, undertakings or provisions of either the Hong Kong Underwriting Agreement or the International Underwriting Agreement by the Bank or any Selling Shareholders or (ii) any of the representations or warranties given by the Bank or any of the Selling Shareholders in the Hong Kong Underwriting Agreement or the International Underwriting Agreement, as applicable, is breached, untrue, incorrect, incomplete or misleading; or

- any of the Reporting Accountant (as defined in the Hong Kong Underwriting Agreement), or any of the counsel or advisor of the Bank or other Experts (as defined in the Hong Kong Underwriting Agreement) has withdrawn its respective consent to the issue of the prospectus with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or
- any event, act or omission which gives or is likely to give rise to any liability of the Bank pursuant to the indemnities given by the Bank under the Hong Kong Underwriting Agreement; or
- any material adverse change or prospective material adverse change or development involving a prospective material adverse change in the assets, liabilities, business, general affairs, management, shareholder's equity, profits, losses, properties, results of operations, in the position condition (financial or otherwise) or prospects of the Bank as a whole

then the Joint Sponsors and the Joint Global Coordinators may (for themselves and on behalf of the Hong Kong Underwriters), in their sole and absolute discretion and upon giving notice in writing to the Bank, terminate the Hong Kong Underwriting Agreement with immediate effect.

Undertakings to the Hong Kong Stock Exchange pursuant to the Listing Rules

Undertakings by our Bank

We are expected to undertake to the Hong Kong Stock Exchange that, except in certain circumstances prescribed by Rule 10.08 of the Listing Rules or pursuant to the Global Offering and the Over-allotment Option, no further shares or securities convertible into securities of our Bank (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of shares or securities will be completed within six months from the Listing Date).

Undertakings pursuant to the Hong Kong Underwriting Agreement

Undertakings by our Bank

We have, pursuant to the Hong Kong Underwriting Agreement, undertaken to each of the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, except pursuant to the Global Offering (including pursuant to any exercise of the Over-allotment Option), at any time during the date falling six months from the Listing Date (the "First Six-Month Period"), we will not without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

(a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, assign, mortgage, charge, pledge, assign, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an Encumbrance (as defined in the Hong Kong Underwriting Agreement) over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, or repurchase, any legal or beneficial interest in the share capital or any other securities of the Bank, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase any share capital or other securities of the Bank, as applicable), or deposit any share capital or other securities of the Bank, as applicable, with a depositary in connection with the issue of depositary receipts; or

(b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership (legal or beneficial) of such share capital or any other securities of the Bank, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of the Bank, as applicable); or

(c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or

(d) offer to or agree to do any of the foregoing or announce any intention to do so,

in each case, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise or publicly disclose that we will or may enter into any transaction described above. We further agree that, in the event of an issue or disposal of any H Shares or any interest therein after the First Six Month Period expires, we will take all reasonable steps to ensure that such an issue or disposal will not, and no other act of us will, create a disorderly or false market for any Shares or other securities of the Bank.

In the event of an issue or disposal of any H Shares or any interest therein after the date falling six months from the date on which dealings in the H Shares commence on the Hong Kong Stock Exchange, we will take all reasonable steps to ensure that such an issue or disposal will not, and no other act of us will, create a disorderly or false market for any H Shares or other securities of us.

The International Offering

In connection with the International Offering, it is expected that our Bank will enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, the International Underwriters will, subject to certain conditions set out therein, severally and not jointly, agree to procure subscribers or purchasers for the International Offer Shares, failing which they agree to subscribe for or purchase their respective proportions of the International Offer Shares which are not taken up under the International Offering.

We and the Selling Shareholders will grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators on behalf of the International Underwriters during the 30-day period from the last day for lodging of applications under the Hong Kong Public Offering, which will end on Friday, December 25, 2015, to require us and the Selling Shareholders to allot and issue or sell up to an aggregate of 148,500,000 additional H Shares, representing approximately 15% of the H Shares initially available under the Global Offering, at the Offer Price, among other things, to cover over-allocations in the International Offering, if any. It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors should note that if the International Underwriting Agreement is not entered into, or is terminated, the Global Offering will not proceed.

Total Commission and Expenses

According to the Hong Kong Underwriting Agreement, the Hong Kong Underwriters will receive an underwriting commission of 1.4% on the Offer Price of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering, out of which they will pay any sub-underwriting commission. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, our Bank will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the Joint Global Coordinators and the relevant International Underwriters (but not the Hong Kong Underwriters). In addition, our Bank will pay any Hong Kong Underwriter an incentive fee of up to 1.0% (in aggregate) of the Offer Price per Hong Kong Offer Share. Further, our Bank may, in its sole and absolute discretion further pay any Hong Kong Underwriters a discretionary fee of up to 0.5% (in aggregate) of the Offer Price per Hong Kong Offer Shares.

Assuming the Over-allotment Option is not exercised at all and based on an Offer Price of HK$4.98 per Offer Share (being the mid-point of the indicative offer price range of HK$4.75 to HK$5.21 per Share), the aggregate commissions and fees (excluding any discretionary incentive fee which may be payable by us), together with listing fees, SFC transaction levy, Hong Kong Stock Exchange trading fee, legal and other professional fees and printing and other expenses, relating to the Global Offering are estimated to be approximately RMB137 million in total.

Activities by Syndicate Members

We describe below a variety of activities that underwriters of the Hong Kong Public Offering and, together referred to as "Syndicate Members", may each individually undertake, and which do not form part of the underwriting or the stabilizing process. When engaging in any of these activities, it should be noted that the Syndicate Members are subject to restrictions, including the following:

- the Syndicate Members must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- all of them must comply with all applicable laws, including the market misconduct provisions of the SFO, the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the H Shares, those activities could include acting as agent for buyers and sellers of the H Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the H Shares and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have the H Shares as their or part of their underlying assets. Those activities may require hedging activity by those entities involving, directly or indirectly, buying and selling the H Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the H Shares, in baskets of securities or indices including the H Shares, in units of funds that may purchase the H Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the H Shares as their or part of their underlying assets, whether on the Hong Kong Stock Exchange or on any other stock exchange, the rules of the relevant exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the H Shares in most cases.

All of these activities may occur both during and after the end of the stabilizing period described in the sections headed "Structure of the Global Offering—The International Offering—Over-allotment Option" and "Information about this Prospectus and the Global Offering—Over-allotment and Stabilization".

These activities may affect the market price or value of the H Shares, the liquidity or trading volume in the H Shares and the volatility of their share price, and the extent to which this occurs from day to day cannot be estimated.

Indemnity

We have agreed to indemnify, among others, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters for certain losses which they may suffer, including, among other matters, liabilities under the U.S. Securities Act, losses arising from the performance of their obligations under the Underwriting Agreements and any breach by us of the Underwriting Agreements as the case may be.

Hong Kong Underwriters' Interests in our Bank

Save as disclosed in this prospectus and save for its obligations under the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding interests in our Bank or the right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Bank.

Following the completion of the Global Offering, the Underwriters and their affiliated companies may hold a certain portion of the H Shares as a result of fulfilling their obligations under the Underwriting Agreements.

Other Services to our Bank

Certain of the Joint Global Coordinators, the Hong Kong Underwriters or their respective affiliates have, from time to time, provided and expect to provide in the future investment banking and other services to our Bank and our respective affiliates, for which such Joint Global Coordinators, Hong Kong Underwriters or their respective affiliates have received or will receive customary fees and commissions.

Over-allotment and Stabilization

For details of the arrangements relating to the Over-allotment Option and stabilization, please refer to "Structure of the Global Offering—The International Offering—Stabilization".

Joint Sponsor's Independence

Goldman Sachs (Asia) L.L.C., one of the Joint Sponsors, satisfies the independence criteria set out in Rule 3A.07 of the Listing Rules.

CITIC CLSA Capital Markets Limited, one of the Joint Sponsors, does not consider itself to be independent from our Bank according to Rule 3A.07 of the Listing Rules. CITIC CLSA Capital Markets Limited and its affiliates have current business relationships with our Bank which may be considered to affect CITIC CLSA Capital Markets Limited's independence for the purpose of Rule 3A.07 of the Listing Rules.

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

(i) the Hong Kong Public Offering of 99,000,000 H Shares in Hong Kong as described below in "—The Hong Kong Public Offering"; and

(ii) the International Offering of an aggregate of initially 891,000,000 H Shares to be offered (i) in the United States to qualified institutional buyers in reliance on Rule 144A or another exemption from, or in transaction not subject to, the registration requirements of the U.S. Securities Act and (ii) outside the United States in reliance on Regulation S. At any time from the date of the International Underwriting Agreement until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, the Joint Global Coordinators, as representatives of the International Underwriters, have an option to require our Bank and the Selling Shareholders to issue and allot or sell up to an aggregate of 148,500,000 additional Offer Shares, representing 15% of the initial number of Offer Shares to be offered in the Global Offering, at the Offer Price to, among other things, cover over-allocations in the International Offering, if any.

Investors may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for International Offer Shares under the International Offering, but may not do both.

The Offer Shares will represent approximately 24.68% of the enlarged issued share capital of our Bank immediately after completion of the Global Offering without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 27.46% of the enlarged issued share capital immediately after completion of the Global Offering and the exercise of the Over-allotment Option as set out in the section headed "Structure of the Global Offering—The International Offering—Over-allotment Option" below.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering may be subject to reallocation as described in "—The Hong Kong Public Offering—Reallocation" below.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

Our Bank is initially offering 99,000,000 H Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Offer Shares initially available under the Global Offering.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. The Hong Kong Offer Shares will represent approximately 2.47% of our Bank's registered share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in "—Conditions of the Hong Kong Public Offering" below.

Allocation

Allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of the Hong Kong Offer Shares initially available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) is to be divided into two pools for allocation purposes: pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate price of HK$5 million (excluding the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate price of more than HK$5 million (excluding the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable) and up to the total value in pool B. Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Hong Kong Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in this other pool and be allocated accordingly.

For the purpose of this paragraph only, the "price" for Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 49,500,000 Hong Kong Offer Shares are liable to be rejected.

Reallocation

Paragraph 4.2 of the Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place, which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if certain prescribed total demand levels are reached. If the number of the Hong Kong Offer Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more the number of the Hong Kong Offer Shares initially available for subscription under the Hong Kong Public Offering, then the International Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering will be increased to 297,000,000 Hong Kong Offer Shares (in the case of (i)), 396,000,000 Hong Kong Offer Shares (in the case of (ii)) and 495,000,000 Hong Kong Offer Shares (in the case of (iii)), representing 30%, 40% and 50% of the Offer Shares initially available under the Global Offering respectively (before any exercise of the Over-allotment Option). In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate. In addition, the Joint Global Coordinators may allocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed for, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators deem appropriate.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him/her that he/she and any person(s) for whose benefit he/she is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.

The listing of the H Shares on the Stock Exchange is sponsored by the Joint Sponsors. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK$5.21 per Hong Kong Offer Share in addition to any brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable on each Hong Kong Offer Share. If the Offer Price, as finally determined in the manner described in "—Pricing of the Global Offering" below, is less than the maximum price of HK$5.21 per Hong Kong Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in "How to Apply for Hong Kong Offer Shares".

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

Conditions of the Hong Kong Public Offering

Acceptance of all applications for Hong Kong Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

(i) the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in, the Offer Shares being offered pursuant to the Global Offering (including the additional Offer Shares which may be made available pursuant to the exercise of the Over-allotment Option) (subject only to allotment);

(ii) the Offer Price having been fixed on or around the Price Determination Date;

(iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and

(iv) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements.

If, for any reason, the Offer Price is not agreed between our Bank and the Joint Global Coordinators (on behalf of the Underwriters) on or before Wednesday, December 2, 2015, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Bank in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in "How to Apply for Hong Kong Offer Shares". In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving banker or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance.

H Share certificates for the Offer Shares are expected to be issued on Wednesday, December 2, 2015 but will only become valid certificates of title at 8:00 a.m. on Thursday, December 3, 2015 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in "Underwriting—Underwriting Arrangements and Expenses—Hong Kong Public Offering—Grounds for Termination" has not been exercised.

THE INTERNATIONAL OFFERING

Number of Offer Shares offered

Subject to reallocation as described above, the International Offering will consist of an initial offering of 891,000,000 International Offer Shares representing 90% of the Offer Shares under the Global Offering and approximately 22.21% of our Bank's enlarged share capital immediately after the completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Allocation

The International Offering will include selective marketing of the International Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such International Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of the International Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in "—Pricing of the Global Offering" below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Offer Shares on the Hong Kong Stock Exchange. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Bank and our Shareholders as a whole.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered the International Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant application under the Hong Kong Public Offering and to ensure that it is excluded from any application of the Hong Kong Offer Shares under the Hong Kong Public Offering.

Over-allotment Option

In connection with the Global Offering, we are expected to grant an Over-allotment Option to the International Underwriters exercisable by the Joint Global Coordinators on behalf of the International Underwriters.

Pursuant to the Over-allotment Option, the Joint Global Coordinators have the right, exercisable at any time from the date of the International Underwriting Agreement until 30 days after the last date for the lodging of applications under the Hong Kong Public Offering, to require our Bank to issue and allot up to an aggregate of 148,500,000 additional Offer Shares, representing 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering to cover, among other things, over-allocation in the International Offering, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 3.58% of our Bank's enlarged share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a press announcement will be made.

THE SELLING SHAREHOLDERS

The Selling Shareholders are initially offering a total of 90,000,000 Sale Shares as part of the Global Offering. The Selling Shareholders may sell up to an aggregate of 103,500,000 Sale Shares if the Over-allotment Option is exercised in full. Pursuant to a letter issued by the NSSF on November 5, 2015, the NSSF instructed us, among other things, to remit the proceeds (after deduction the SFC transaction levy and Hong Kong Stock Exchange trading fee) from the sale of the Sale Shares currently registered in the name of the Selling Shareholders in the Global Offering to an account designated by the NSSF in accordance with relevant PRC laws and regulations.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent, any decline in the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager or any person acting for them, on behalf of the Underwriters, may over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of the H Shares at a level higher than that which might otherwise prevail in the open market. Short sales involve the sale by the Stabilizing Manager of a greater number of H Shares than the Underwriters are required to purchase in the Global Offering. "Covered" short sales are sales made in an amount not greater than the Over-allotment Option. The Stabilizing Manager may close out the covered short position by either exercising the Over-allotment Option to purchase additional H Shares or purchasing H Shares in the open market. In determining the source of the H Shares to close out the covered short position, the

Stabilizing Manager will consider, among others, the price of H Shares in the open market as compared to the price at which they may purchase additional H Shares pursuant to the Over-allotment Option. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the H Shares while the Global Offering is in progress. Any market purchases of the H Shares may be effected on any stock exchange, including the Hong Kong Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing activity, which if commenced, will be done at the absolute discretion of the Stabilizing Manager and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering.

The number of the H Shares that may be over-allocated will not exceed the number of the H Shares that may be sold under the Over-allotment Option, namely, 148,500,000 H Shares, which is 15% of the number of Offer Shares initially available under the Global Offering, in the event that the whole or part of the Over-allotment Option is exercised.

In Hong Kong, stabilizing activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules. Stabilizing actions permitted pursuant to the Securities and Futures (Price Stabilizing) Rules include:

(a) over-allocation for the purpose of preventing or minimizing any reduction in the market price;

(b) selling or agreeing to sell the H Shares so as to establish a short position in them for the purpose of preventing or minimizing any deduction in the market price;

(c) subscribing, or agreeing to subscribe, for the H Shares pursuant to the Over-allotment Option in order to close out any position established under (a) or (b) above;

(d) purchasing, or agreeing to purchase, the H Shares for the sole purpose of preventing or minimizing any reduction in the market price;

(e) selling the H Shares to liquidate a long position held as a result of those purchases; and

(f) offering or attempting to do anything described in (b), (c), (d) and (e) above.

Stabilizing actions by the Stabilizing Manager, or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

As a result of effecting transactions to stabilize or maintain the market price of the H Shares, the Stabilizing Manager, or any person acting for it, may maintain a long position in the H Shares. The size of the long position, and the period for which the Stabilizing Manager, or any person acting for it, will maintain the long position is at the discretion of the Stabilizing Manager and is uncertain. In the event that the Stabilizing Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the H Shares.

Stabilizing action by the Stabilizing Manager, or any person acting for it, is not permitted to support the price of the H Shares for longer than the stabilizing period, which begins on the day on which trading of the H Shares commences on the Hong Kong Stock Exchange and ends on the thirtieth day after the last day for the lodging of applications under the Hong Kong Public Offering. The stabilizing period is expected to end on Friday, December 25, 2015. As a result, demand for the

H Shares, and their market price, may fall after the end of the stabilizing period. These activities by the Stabilizing Manager may stabilize, maintain or otherwise affect the market price of the H Shares. As a result, the price of the H Shares may be higher than the price that otherwise may exist in the open market. Any stabilizing action taken by the Stabilizing Manager, or any person acting for it, may not necessarily result in the market price of the H Shares staying at or above the Offer Price either during or after the stabilizing period. Bids for or market purchases of the H Shares by the Stabilizing Manager, or any person acting for it, may be made at a price at or below the Offer Price and therefore at or below the price paid for the H Shares by applicants. A public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

PRICING OF THE GLOBAL OFFERING

The International Underwriters will be soliciting from prospective investors' indications of interest in acquiring the International Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of the International Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building," is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Wednesday, November 25, 2015, and in any event on or before Wednesday, December 2, 2015, by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and our Bank (on behalf of ourselves and the Selling Shareholders) and the number of Offer Shares to be allocated under various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK$5.21 per Offer Share and is expected to be not less than HK$4.75 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.**

The Joint Sponsors and Joint Global Coordinators, on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of our Bank, reduce the number of Offer Shares offered in the Global Offering and/or the indicative Offer Price below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, our Bank will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and to be posted on the website of the Hong Kong Stock Exchange (**www.hkexnews.hk**) and on the website of our Bank (**www.qdccb.com**) notices of the reduction. Upon issue of such a notice, the number of Offer Shares offered in the Global Offering and/or the revised offer price range will be final and conclusive and the offer price, if agreed upon by the Joint Global Coordinators, on behalf of the Underwriters, and our Bank, on behalf of ourselves and the Selling Shareholders, will be fixed within such revised offer price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the Offer Price, if agreed upon with our Bank and the Joint Global Coordinators, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

In the event of a reduction in the number of Offer Shares being offered under the Global Offering, the Joint Global Coordinators may at their discretion reallocate the number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering, provided that the number of the Hong Kong Offer Shares comprised in the Hong Kong Public Offering shall not be less than 5% of the total number of Hong Kong Offer Shares in the Global Offering. The International Offer Shares to be offered in the International Offering and the Offer Shares to be offered in the Hong Kong Public Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators.

The net proceeds of the Global Offering accruing to our Bank (after deduction of underwriting commissions and other expenses in relation to the Global Offering, assuming the Over-allotment Option is not exercised) are estimated to be approximately HK$4,112.8 million, assuming an Offer Price per Offer Share of HK$4.75, or approximately HK$4,516.9 million, assuming an Offer Price per Offer Share of HK$5.21 (or if the Over-allotment Option is exercised in full, approximately HK$4,738.6 million, assuming an Offer Price per Offer Share of HK$4.75, or approximately HK$5,203.3 million, assuming an Offer Price per Offer Share of HK$5.21).

The Offer Price under the Global Offering is expected to be announced on Wednesday, December 2, 2015. The indications of interest in the Global Offering, the results of applications and the basis of allotment of the Hong Kong Offer Shares available under the Hong Kong Public Offering, are expected to be announced on Wednesday, December 2, 2015 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and to be posted on the website of the Hong Kong Stock Exchange (**www.hkexnews.hk**) and on the website of our Bank (**www.qdccb.com**).

HONG KONG UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is conditional upon the International Underwriting Agreement being signed and becoming unconditional.

Our Bank expects to enter into the International Underwriting Agreement relating to the International Offering on or around the Price Determination Date.

These underwriting arrangements, and the respective Underwriting Agreements, are summarized in "Underwriting".

ADMISSION OF THE H SHARES INTO CCASS

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares and our Bank complies with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, December 3, 2015, it is expected that dealings in the H Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Thursday, December 3, 2015. Our H Shares will be traded in board lots of 500 H Shares each and the stock code of our H Shares will be 3866.

1. HOW TO APPLY

If you apply for the Hong Kong Offer Shares, then you may not apply for or indicate an interest for the International Offer Shares.

To apply for the Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at www.eipo.com.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Bank, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in our Bank;
- a Director or chief executive officer of our Bank;

- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of our Bank or will become a connected person of our Bank immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.eipo.com.hk.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, November 20, 2015 till 12:00 noon on Wednesday, November 25, 2015 from:

any of the following offices of the Hong Kong Underwriters:

Goldman Sachs (Asia) L.L.C.
68th Floor, Cheung Kong Center
2 Queen's Road Central
Central
Hong Kong

AMTD Asset Management Limited
Rooms 2501-2503
25/F World Trade Centre
280 Gloucester Road
Causeway Bay
Hong Kong

CLSA Limited
18th Floor, One Pacific Place
88 Queensway
Hong Kong

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

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

China Merchants Securities (HK) Co., Limited
48/F, One Exchange Square
8 Connaught Place
Central
Hong Kong

Guosen Securities (HK) Capital Company Limited
42/F, Two International Finance Centre
No. 8 Finance Street
Central
Hong Kong

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

Guotai Junan Securities (Hong Kong) Limited
27/F., Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

BNP Paribas Securities (Asia) Limited
62/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

any of the branches of the following receiving banks:

Bank of China (Hong Kong) Limited

	Branch	Address
Hong Kong Island	Bank of China Tower Branch	3/F, 1 Garden Road
	North Point (King's Centre) Branch	193-209 King's Road, North Point
Kowloon	Yau Ma Tei Branch	471 Nathan Road, Yau Ma Tei
	To Kwa Wan Branch	80N To Kwa Wan Road, To Kwa Wan
	Kwun Tong Plaza Branch	G1 Kwun Tong Plaza, 68 Hoi Yuen Road, Kwun Tong
	Tseung Kwan O Plaza Branch	Shop 112-125, Level 1, Tseung Kwan O Plaza, Tseung Kwan O
New Territories	Tai Po Branch	68-70 Po Heung Street, Tai Po Market
	Yuen Long (Hang Fat Mansion) Branch	8-18 Castle Peak Road, Yuen Long

Bank of Communications Co., Ltd. Hong Kong Branch

	Branch	Address
Hong Kong Island	Hong Kong Branch	20 Pedder Street, Central
Kowloon	Jordan Road Sub-Branch	1/F., Booman Building, 37U Jordan Road
	Cheung Sha Wan Plaza Sub-Branch	Unit G04 on G/F., Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road
New Territories	Tsuen Wan Sub-Branch	Shop G9B and G10-11 on G/F., Bo Shek Mansion, 328 Sha Tsui Road, Tsuen Wan

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, November 20, 2015 till 12:00 noon on Wednesday, November 25, 2015 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stock broker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Bank of China (Hong Kong) Nominees Limited—Bank of Qingdao Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

- Friday, November 20, 2015 – 9:00 a.m. to 5:00 p.m.
- Saturday, November 21, 2015 – 9:00 a.m. to 1:00 p.m.
- Monday, November 23, 2015 – 9:00 a.m. to 5:00 p.m.
- Tuesday, November 24, 2015 – 9:00 a.m. to 5:00 p.m.
- Wednesday, November 25, 2015 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, November 25, 2015, the last application day or such later time as described in "—10. Effect of Bad Weather on the Opening of the Application Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you:

(i) **undertake** to execute all relevant documents and instruct and authorize the Bank and/or the Joint Global Coordinators (or their agents or nominees), as agents of the Bank, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(ii) **agree** to comply with the Companies Ordinance, the Companies (Winding up and Miscellaneous Provisions) Ordinance and the Articles of Association;

(iii) **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

(iv) **confirm** that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(v) **confirm** that you are aware of the restrictions on the Global Offering in this prospectus;

(vi) **agree** that none of the Bank, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(vii) **undertake** and **confirm** that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering nor participated in the International Offering;

(viii) **agree** to disclose to the Bank, our H Share Registrar, receiving banks, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisors and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, **agree** and **warrant** that you have complied with all such laws and none of the Bank, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisors will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

(x) **agree** that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xi) **agree** that your application will be governed by the laws of Hong Kong;

(xii) **represent**, **warrant** and **undertake** that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(xiii) **warrant** that the information you have provided is true and accurate;

(xiv) **agree** to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;

(xv) **authorize** the Bank to place your name(s) or the name of the HKSCC Nominees, on the Bank's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Bank and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;

(xvi) **declare** and **represent** that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(xvii) **understand** that the Bank and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

(xviii) (if the application is made for your own benefit) **warrant** that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) **warrant** that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in "Who can apply" section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at www.eipo.com.hk.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Bank. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

Time for Submitting Applications under the White Form eIPO

You may submit your application to the **White Form eIPO** Service Provider at www.eipo.com.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Friday, November 20, 2015 until 11:30 a.m. on Wednesday, November 25, 2015 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on

Wednesday, November 25, 2015 or such later time described in "—10. Effect of Bad Weather on the Opening of the Application Lists".

No Multiple Applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Bank and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding up and Miscellaneous Provisions) Ordinance).

Environmental Protection

The obvious advantage of **White Form eIPO** service is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK$2.00 for each "Bank of Qingdao Co., Ltd." **White Form eIPO** application submitted via the www.eipo.com.hk to support the funding of "Source of Dongjiang—Hong Kong Forest" project initiated by Friends of the Earth (HK).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (https://ip.ccass.com) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
1/F, One & Two Exchange Square,
8 Connaught Place, Central,
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the Bank, the Joint Global Coordinators and our H Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering;
- (if the electronic application instructions are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;
- confirm that you understand that the Bank, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;

- authorize the Bank to place HKSCC Nominees' name on the Bank's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of the Bank, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to the Bank, our H Share Registrar, receiving banks, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or its respective advisors and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Bank agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Bank's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;

- agree with the Bank, for itself and for the benefit of each Shareholder (and so that the Bank will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, the Companies (Winding up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- agree with the Bank, for itself and for the benefit of each of the Shareholder and each director, supervisor, manager and other senior officer of the Bank (and so that the Bank will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each of the Shareholder and each director, supervisor, manager and other senior officer of the Bank, with each CCASS Participant giving **electronic application instructions**):
  (a) to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of the Bank to arbitration in accordance with the Articles of Association;
  (b) that any award made in such arbitration shall be final and conclusive; and
  (c) that the arbitration tribunal may conduct hearings in open sessions and publish its award;
- agree with the Bank (for the Bank itself and for the benefit of each Shareholder of the Bank) that the H Shares are freely transferable by their holders;
- authorize the Bank to enter into a contract on its behalf with each director and officer of the Bank whereby each such director and officer undertakes to observe and comply with his obligations to shareholders stipulated in the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Bank or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 500 Hong Kong Offer Shares. Instructions for more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

- Friday, November 20, 2015 – 9:00 a.m. to 8:30 p.m.(1)
- Monday, November 23, 2015 – 8:00 a.m. to 8:30 p.m.(1)
- Tuesday, November 24, 2015 – 8:00 a.m. to 8:30 p.m.(1)
- Wednesday, November 25, 2015 – 8:00 a.m.(1) to 12:00 noon

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, November 20, 2015 until 12:00 noon on Wednesday, November 25, 2015 (24 hours daily, except Saturday, November 21, 2015 and on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Wednesday, November 25, 2015, the last application day or such later time as described in "—10. Effect of Bad Weather on the Opening of the Application Lists".

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Bank and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed "Personal Data" applies to any personal data held by the Bank, the H Share Registrar, the receiving bankers, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Bank, the Directors, the Joint Bookrunners, the Joint Sponsors, the Joint Global Coordinators and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, November 25, 2015.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"**Unlisted company**" means a company with no equity securities listed on the Hong Kong Stock Exchange.

"**Statutory control**" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee in full upon application for the Hong Kong Offer Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 500 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.eipo.com.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Hong Kong Stock Exchange trading fee are paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected by the Hong Kong Stock Exchange on behalf of SFC).

For further details on the Offer Price, see "Structure of the Global Offering—Pricing of the Global Offering".

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, November 25, 2015. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Wednesday, November 25, 2015 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in "Expected Timetable", an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Bank expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Wednesday, December 2, 2015 in South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the Bank's website at www.qdccb.com and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Bank's website at www.qdccb.com and the Hong Kong Stock Exchange's website at www.hkexnews.hk by no later than 8:00 a.m. on Wednesday, December 2, 2015;
- from the designated results of allocations website at www.iporesults.com.hk with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Wednesday, December 2, 2015 to 12:00 midnight on Tuesday, December 8, 2015;
- by telephone inquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Wednesday, December 2, 2015 to Saturday, December 5, 2015;
- in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, December 2, 2015 to Friday, December 4, 2015 at all the receiving bank branches and sub-branches.

If our Bank accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in "Structure of the Global Offering".

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Bank.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under

Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If the Bank or its agents exercise their discretion to reject your application:

The Bank, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Hong Kong Stock Exchange does not grant permission to list the H Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Bank of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Bank or the Joint Global Coordinators believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or

- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK$5.21 per Offer Share (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering—The Hong Kong Public Offering—Conditions of the Hong Kong Public Offering" of this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Wednesday, December 2, 2015.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the H Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed "Account Payee Only" in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on Wednesday, December 2, 2015. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Thursday, December 3, 2015 provided that the Global Offering has become unconditional and the right of termination described in "Underwriting" has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

15. PERSONAL COLLECTION

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, December 2, 2015 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the H Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Wednesday, December 2, 2015, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Wednesday, December 2, 2015, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Wednesday, December 2, 2015, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- **If you apply through a designated CCASS participant (other than a CCASS investor participant)**

  For Hong Kong Public Offering shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offering shares allotted to you with that CCASS participant.

- **If you are applying as a CCASS investor participant**

  The Bank will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "How to Apply for Hong Kong Offer Shares—11. Publication of Results" above. You should check the announcement published by the Bank and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, December 2, 2015 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the White Form eIPO service

If you apply for 1,000,000 or more Hong Kong Offer Shares and your application is wholly or partially successful, you may collect your Share certificate(s) from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, December 2, 2015, or such other date as notified by the Bank in the newspapers as the date of despatch/collection of Share certificates/e-Refund payment instructions /refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Wednesday, December 2, 2015 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Wednesday, December 2, 2015, or, on any other date determined by HKSCC or HKSCC Nominees.

- The Bank expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Bank will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Wednesday, December 2, 2015. You should check the announcement published by the Bank and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, December 2, 2015 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, December 2, 2015. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, December 2, 2015.

16. ADMISSION OF THE H SHARES INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Bank's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

November 20, 2015

The Directors
Bank of Qingdao Co., Ltd.

Goldman Sachs (Asia) L.L.C.
CITIC CLSA Capital Markets Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Bank of Qingdao Co., Ltd. (the "Bank") which comprise the statements of financial position of the Bank as at December 31, 2012, 2013 and 2014 and June 30, 2015 and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the cash flow statements of the Bank, for each of the years ended December 31, 2012, 2013 and 2014 and the six months ended June 30, 2015 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (the "Financial Information"), for inclusion in the prospectus of the Bank dated November 20, 2015 (the "Prospectus").

The Bank was formerly known as Qingdao City Cooperative Bank Co., Ltd., a joint-stock commercial bank, which was established in the People's Republic of China (the "PRC") on November 15, 1996 with the approval of the People's Bank of China (the "PBOC"). The Bank changed its name to Qingdao Commercial Bank Co., Ltd. and Bank of Qingdao Co., Ltd. in 1998 and 2008, respectively.

The Bank has adopted December 31, as its financial year end date and has prepared statutory financial statements in accordance with the "Accounting Standards for Business Enterprises" (known as the "PRC GAAP") issued by the Ministry of Finance of the PRC (the "MOF") (the "PRC GAAP Financial Statements"). The PRC GAAP Financial Statements of the Bank for each of the years ended December 31, 2012, 2013 and 2014 were audited by KPMG Huazhen LLP (畢馬威華振會計師事務所(特殊普通合夥)).

The directors of the Bank have also prepared the financial statements of the Bank for the Relevant Periods (the "Underlying Financial Statements") in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"). The Underlying Financial Statements for each of the years ended December 31, 2012, 2013 and 2014 and the six months ended June 30, 2015 were audited by KPMG Huazhen LLP (畢馬威華振會計師事務所(特殊普通合夥)) in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Financial Information has been prepared by the directors of the Bank for inclusion in the prospectus in connection with the listing of shares of the Bank on the Main Board of The Stock Exchange of Hong Kong Limited based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Bank are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with IFRSs issued by the IASB and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Bank determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of the Bank in respect of any period subsequent to June 30, 2015.

OPINION

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the financial position of the Bank as at December 31, 2012, 2013 and 2014 and June 30, 2015 and the Bank's financial performance and cash flows for the Relevant Periods then ended.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Bank comprising the statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statement for the six months ended June 30, 2014, together with the notes thereon (the "Corresponding Financial Information"), for which the directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

The directors of the Bank are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A FINANCIAL INFORMATION OF THE BANK

I Statements of profit or loss and other comprehensive income

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Years ended December 31,			Six months ended June 30,	
		2012	2013	2014	2014	2015
					(unaudited)	
Interest income		4,501,560	6,119,361	7,595,389	3,724,117	4,247,501
Interest expense		(1,894,189)	(3,031,577)	(3,999,053)	(1,950,773)	(2,297,026)
Net interest income	3	2,607,371	3,087,784	3,596,336	1,773,344	1,950,475
Fee and commission income		252,715	456,637	721,022	434,432	406,802
Fee and commission expense		(17,217)	(31,307)	(32,271)	(17,793)	(13,535)
Net fee and commission income	4	235,498	425,330	688,751	416,639	393,267
Net trading gains	5	20,701	7,405	33,630	20,365	11,779
Net gains arising from investments	6	4,710	1,062	11,216	7,128	35,909
Other operating income	7	18,680	34,711	35,119	(522)	7,768
Operating income		2,886,960	3,556,292	4,365,052	2,216,954	2,399,198
Operating expenses	8	(1,380,363)	(1,688,944)	(1,995,253)	(838,899)	(750,338)
Impairment losses	11	(283,532)	(348,702)	(411,278)	(180,956)	(240,612)
Profit before taxation		1,223,065	1,518,646	1,958,521	1,197,099	1,408,248
Income tax expense	12	(303,037)	(376,732)	(463,169)	(287,415)	(334,504)
Net profit for the year / period		920,028	1,141,914	1,495,352	909,684	1,073,744
Other comprehensive income:						
Items that will not be reclassified subsequently to profit or loss						
— Remeasurement of net defined benefit liability		—	—	—	—	(20,303)
Items that may be reclassified subsequently to profit or loss						
— Available-for-sale financial assets: Net movement in the investment revaluation reserve	32(4)	(75,652)	(194,480)	288,624	188,569	54,768
Other comprehensive income net of tax		(75,652)	(194,480)	288,624	188,569	34,465
Total comprehensive income		844,376	947,434	1,783,976	1,098,253	1,108,209
Basic and diluted earnings per share (in RMB)	13	0.36	0.45	0.59	0.36	0.36

A FINANCIAL INFORMATION OF THE BANK—continued

II Statements of financial position

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	December 31, 2012	December 31, 2013	December 31, 2014	June 30, 2015
Assets					
Cash and deposits with central bank	14	20,071,733	20,870,657	23,609,591	21,551,553
Deposits with banks and other financial institutions	15	3,586,036	2,480,808	2,018,827	3,012,289
Placements with banks and other financial institutions	16	1,062,650	700,000	1,156,491	1,357,060
Financial assets at fair value through profit or loss	17	283,745	184,496	190,195	293,043
Financial assets held under resale agreements	18	5,857,213	8,207,883	2,697,628	1,015,501
Loans and advances to customers	19	44,495,597	54,105,925	61,248,341	68,136,151
Financial investments:					
Available-for-sale financial assets	20	9,485,515	6,076,865	14,122,539	10,601,348
Held-to-maturity investments	20	13,362,901	18,905,989	19,721,428	21,728,674
Investment classified as receivables	20	562,438	20,469,687	27,209,059	37,342,011
Property and equipment	21	606,912	758,976	865,538	860,557
Deferred tax assets	22	225,800	361,581	337,469	319,608
Other assets	23	2,057,684	2,566,504	2,988,835	3,191,524
Total assets		101,658,224	135,689,371	156,165,941	169,409,319
Liabilities					
Borrowings from central bank	24	—	1,024,240	1,003,676	1,042,404
Deposits from banks and other financial institutions	25	2,817,165	12,553,372	20,362,589	20,043,564
Placements from banks and other financial institutions	26	4,261,074	260,338	1,379,835	2,732,332
Financial assets sold under repurchase agreements	27	10,248,010	10,130,000	10,069,144	8,948,800
Deposits from customers	28	75,647,869	96,283,907	101,733,660	101,970,910
Income tax payable		43,730	124,183	88,942	164,313
Debt securities issued	29	—	4,986,736	8,335,030	17,508,190
Other liabilities	30	1,203,741	2,121,443	3,408,415	4,883,835
Total liabilities		94,221,589	127,484,219	146,381,291	157,294,348
Equity					
Share capital	31	2,555,977	2,555,977	2,555,977	3,111,533
Reserves	32	4,880,658	5,649,175	7,228,673	9,003,438
Total equity		7,436,635	8,205,152	9,784,650	12,114,971
Total liabilities and equity		101,658,224	135,689,371	156,165,941	169,409,319

A FINANCIAL INFORMATION OF THE BANK—continued

III Statements of changes in equity

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Other reserve	Retained earnings	Total
			Note32(1)	Note32(2)	Note32(3)	Note32(4)	Note32(5)		
Balance at January 1, 2012		2,555,977	2,750,177	267,683	558,067	66,585	18,330	741,386	6,958,205
Profit for the year		—	—	—	—	—	—	920,028	920,028
Other comprehensive income		—	—	—	—	(75,652)	—	—	(75,652)
Total comprehensive income		—	—	—	—	(75,652)	—	920,028	844,376
Appropriation of profit:									
— Appropriation to surplus reserve	33	—	—	92,002	—	—	—	(92,002)	—
— Appropriation to general reserve	33	—	—	—	309,726	—	—	(309,726)	—
— Cash dividends	33	—	—	—	—	—	—	(365,946)	(365,946)
Sub-total		—	—	92,002	309,726	—	—	(767,674)	(365,946)
Balance at December 31, 2012		2,555,977	2,750,177	359,685	867,793	(9,067)	18,330	893,740	7,436,635
Balance at January 1, 2013		2,555,977	2,750,177	359,685	867,793	(9,067)	18,330	893,740	7,436,635
Profit for the year		—	—	—	—	—	—	1,141,914	1,141,914
Other comprehensive income		—	—	—	—	(194,480)	—	—	(194,480)
Total comprehensive income		—	—	—	—	(194,480)	—	1,141,914	947,434
Appropriation of profit:									
— Appropriation to surplus reserve	33	—	—	114,191	—	—	—	(114,191)	—
— Appropriation to general reserve	33	—	—	—	466,270	—	—	(466,270)	—
— Cash dividends	33	—	—	—	—	—	—	(178,917)	(178,917)
Sub-total		—	—	114,191	466,270	—	—	(759,378)	(178,917)
Balance at December 31, 2013		2,555,977	2,750,177	473,876	1,334,063	(203,547)	18,330	1,276,276	8,205,152
Balance at January 1, 2014		2,555,977	2,750,177	473,876	1,334,063	(203,547)	18,330	1,276,276	8,205,152
Profit for the year		—	—	—	—	—	—	1,495,352	1,495,352
Other comprehensive income		—	—	—	—	288,624	—	—	288,624
Total comprehensive income		—	—	—	—	288,624	—	1,495,352	1,783,976
Appropriation of profit:									
— Appropriation to surplus reserve	33	—	—	149,535	—	—	—	(149,535)	—
— Appropriation to general reserve	33	—	—	—	552,565	—	—	(552,565)	—
— Cash dividends	33	—	—	—	—	—	—	(204,478)	(204,478)
Sub-total		—	—	149,535	552,565	—	—	(906,578)	(204,478)
Balance at December 31, 2014		2,555,977	2,750,177	623,411	1,886,628	85,077	18,330	1,865,050	9,784,650

A FINANCIAL INFORMATION OF THE BANK—continued

III Statements of changes in equity—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Other reserve	Retained earnings	Total
			Note32(1)	Note32(2)	Note32(3)	Note32(4)	Note32(5)		
Balance at January 1, 2014 (Unaudited)		2,555,977	2,750,177	473,876	1,334,063	(203,547)	18,330	1,276,276	8,205,152
Profit for the period		—	—	—	—	—	—	909,684	909,684
Other comprehensive income		—	—	—	—	188,569	—	—	188,569
Total comprehensive income		—	—	—	—	188,569	—	909,684	1,098,253
Appropriation of profit:									
— Cash dividends	33	—	—	—	—	—	—	(204,478)	(204,478)
Balance at June 30, 2014 (Unaudited)		2,555,977	2,750,177	473,876	1,334,063	(14,978)	18,330	1,981,482	9,098,927
Balance at January 1, 2015		2,555,977	2,750,177	623,411	1,886,628	85,077	18,330	1,865,050	9,784,650
Profit for the period		—	—	—	—	—	—	1,073,744	1,073,744
Other comprehensive income		—	—	—	—	54,768	(20,303)	—	34,465
Total comprehensive income		—	—	—	—	54,768	(20,303)	1,073,744	1,108,209
Owners' contributions									
— Contribution by owners	31	555,556	1,444,444	—	—	—	—	—	2,000,000
Appropriation of profit:									
— Cash dividends	33	—	—	—	—	—	—	(777,888)	(777,888)
Balance at June 30, 2015		3,111,533	4,194,621	623,411	1,886,628	139,845	(1,973)	2,160,906	12,114,971

A FINANCIAL INFORMATION OF THE BANK—continued

IV Cash flow statements

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Years ended December 31,			Six months ended June 30,	
		2012	2013	2014	2014	2015
					(unaudited)	
Cash flows from operating activities						
Profit before taxation		1,223,065	1,518,646	1,958,521	1,197,099	1,408,248
Adjustments for:						
Impairment losses		283,532	348,702	411,278	180,956	240,612
Depreciation and amortization		151,981	189,043	240,880	114,465	139,927
Un-winding of interest		(12,470)	(17,183)	(20,875)	(9,871)	(13,433)
Unrealized foreign exchange (gains)/ losses		(419)	(5,904)	(369)	(1,622)	412
Net (gains)/ losses on disposal of long-term assets		(14,491)	(9,786)	(37,658)	205	(477)
Revaluation losses/ (gains) on investments		3,183	6,547	(5,699)	(7,825)	(2,848)
Dividends from available-for-sale equity investments		(350)	(400)	(450)	—	—
Net gains on disposal of available-for-sale financial assets		(4,360)	(662)	(10,766)	(7,128)	(35,909)
Interest expense on debt securities issued		—	197,361	278,924	118,407	334,611
Interest income on financial investments		(866,599)	(1,559,088)	(2,629,069)	(1,172,432)	(1,774,782)
Defined benefit cost		—	—	—	—	(178,030)
		763,072	667,276	184,717	412,254	118,331
Changes in operating assets						
Net (increase)/ decrease in deposits with central bank		(3,930,107)	(3,994,164)	(2,431,221)	(686,533)	2,308,919
Net (increase)/ decrease in deposits with banks and other financial institutions		(300,000)	(234,406)	234,406	(3,065,594)	(120,000)
Net decrease/ (increase) in placements with banks and other financial institutions		1,270,678	500,000	(361,021)	(600,000)	(739,247)
Net increase in loans and advances to customers		(11,483,409)	(9,935,199)	(7,499,835)	(2,848,876)	(7,093,555)
Net decrease/ (increase) in financial assets held under resale agreements		82,799	(4,031,510)	6,230,255	647,519	862,127
Net (increase) / decrease in financial assets at fair value through profit or loss		(286,928)	92,702	—	(297,768)	(100,000)
Net increase in other operating assets		(111,440)	(315,062)	(170,667)	(103,858)	(97,762)
		(14,758,407)	(17,917,639)	(3,998,083)	(6,955,110)	(4,979,518)
Changes in operating liabilities						
Net increase / (decrease) in borrowings from central bank		—	1,024,240	(20,564)	(862,882)	38,729
Net increase / (decrease) in deposits from banks and other financial institutions		1,117,035	9,736,207	7,809,217	2,614,445	(319,025)
Net increase / (decrease) in placements from banks and other financial institutions		2,992,047	(4,000,736)	1,119,497	1,008,694	1,352,497
Net increase / (decrease) in financial assets sold under repurchase agreements		4,856,510	(118,010)	(60,856)	1,468,437	(1,120,344)
Net increase in deposits from customers		14,835,021	20,636,038	5,449,753	7,936,586	237,250
Income tax paid		(369,584)	(368,055)	(570,507)	(284,263)	(252,760)
Net increase in other operating liabilities		382,474	714,892	1,283,086	1,184,714	1,705,161
		23,813,503	27,624,576	15,009,626	13,065,731	1,641,508
Net cash flows generated from / (used in) operating activities		9,818,168	10,374,213	11,196,260	6,522,875	(3,219,679)

A FINANCIAL INFORMATION OF THE BANK—continued

IV Cash flow statements—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

		Years ended December 31,			Six months ended June 30,	
	Note	2012	2013	2014	2014	2015
					(unaudited)	
Cash flows from investing activities						
Proceeds from disposal and redemption of investments		2,822,158	6,743,955	17,918,038	14,166,296	16,780,035
Net cash received from investment gains and interest		859,607	1,364,460	2,449,880	862,814	1,689,596
Proceeds from disposal of property and equipment, intangible assets and other assets		17,334	22,601	47,096	260	3,255
Payments on acquisition of investments		(6,993,333)	(28,841,057)	(32,866,694)	(20,329,444)	(25,616,343)
Payments on acquisition of property and equipment, intangible assets and other assets		(1,246,669)	(554,329)	(414,006)	(259,532)	(152,667)
Net cash flows used in investing activities		(4,540,903)	(21,264,370)	(12,865,686)	(5,559,606)	(7,296,124)
Cash flows from financing activities						
Proceeds from capital injection		—	—	—	—	2,000,000
Net proceeds from debt securities issued		—	4,984,475	5,005,170	—	16,294,467
Repayment of debt securities issued		—	—	(1,700,000)	—	(7,300,000)
Interest paid on debt securities issued		—	—	(235,800)	(235,800)	(235,800)
Dividends paid		(366,408)	(178,586)	(204,705)	(204,427)	(776,787)
Net cash flows (used in) / generated from financing activities		(366,408)	4,805,889	2,864,665	(440,227)	9,981,880
Effect of foreign exchange rate changes on cash and cash equivalents		419	5,904	369	1,622	(412)
Net increase / (decrease) in cash and cash equivalents		4,911,276	(6,078,364)	1,195,608	524,664	(534,335)
Cash and cash equivalents as at January 1		7,290,348	12,201,624	6,123,260	6,123,260	7,318,868
Cash and cash equivalents as at December 31 / June 30	34	12,201,624	6,123,260	7,318,868	6,647,924	6,784,533
Net cash flows generated from operating activities include:						
Interest received		3,586,554	4,442,582	4,912,626	2,443,586	2,442,273
Interest paid		(1,607,946)	(2,146,431)	(3,185,116)	(1,452,366)	(1,892,263)

B NOTES TO THE FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

1 Background information

Bank of Qingdao Co., Ltd. (the "Bank"), formerly known as Qingdao City Cooperative Bank Co., Ltd., is a joint-stock commercial bank established on November 15, 1996 with the approval of the PBOC according to the notices YinFu [1996] No.220 "Approval upon the Preparing of Qingdao City Cooperative Bank" and YinFu [1996] No.353 "Approval upon the Opening of Qingdao City Cooperative Bank".

The Bank changed its name from Qingdao City Cooperative Bank Co., Ltd. to Qingdao City Commercial Bank Co., Ltd. in 1998 according to LuyinFu [1998] No.76 issued by Shandong Branch of the PBOC. The Bank changed its name from Qingdao City Commercial Bank Co., Ltd. to Bank of Qingdao Co., Ltd. in 2008 according to YinJianFu [2007] No.485 issued by the China Banking Regulatory Commission (the "CBRC").

The Bank obtained its financial institution licence No. B0170H237020001 from the Qingdao Branch of the CBRC. The Bank obtained its business license No. 370000018010094 from the Administration for Industry and Commerce of Qingdao City. The registered office of the Bank is located at No. 68 Hong Kong Middle Road, Shinan District, Qingdao, Shandong Province, the PRC. The registered capital of the Bank is RMB3.112 billion as at June 30, 2015.

The Bank has 8 branches in Ji'nan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai and Binzhou as at June 30, 2015. The principal activities of the Bank are the provision of corporate and personal deposits, loans and advances, settlement, financial market business and other banking services as approved by the CBRC. The Bank mainly operated in Shandong Province.

For the purpose of this report, Mainland China excludes the Hong Kong Special Administration Region of the PRC ("Hong Kong"), the Macau Special Administration Region of the PRC ("Macau") and Taiwan.

2 Significant accounting policies

(1) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with IFRSs and related interpretations, issued by the IASB. The Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies—continued

(1) Statement of compliance—continued

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing the Financial Information, the Bank has adopted all the new and revised IFRSs in issue which are effective for the accounting period ended June 30, 2015 and relevant to the Bank for the Relevant Periods. The Bank has not adopted any new standards or interpretations that are not yet effective for the accounting period ended June 30, 2015. The revised and new accounting standards and interpretations probably related to the Bank, which are issued but not yet effective for the accounting period ended June 30, 2015, are set out below:

	Effective for accounting periods beginning on or after
IFRS 14, *Regulatory deferral accounts*	January 1, 2016
Amendments to IAS 16, *Property, Plant and Equipment*	January 1, 2016
Amendments to IAS 38, *Intangible asset*	January 1, 2016
IFRS 15, *Revenue from contracts with customers*	January 1, 2018
IFRS 9, *Financial instruments*	January 1, 2018

The Bank is in the process of assessing the impact of the new standards and amendments on the Financial Information. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Financial Information except for the followings:

IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 9. Given the nature of the Bank's operations, the standard is expected to have an impact on the Bank's financial statements. The Bank has not completed its assessment of the full impact of adopting IFRS 9 and therefore its possible impact on the Bank's operating results and financial position has not been quantified.

The accounting polices set out in Note 2 below have been consistently applied in preparing the Financial Information for the Relevant Periods. The Corresponding Financial Information for the six months ended June 30, 2014 has been prepared in accordance with the same basis and accounting policies adopted in respect of the Financial Information.

The Financial Information are presented in Renminbi ("RMB"), rounded to the nearest thousands, which is the functional currency of the Bank.

B NOTES TO THE FINANCIAL INFORMATION—continued
(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies—continued

(1) Statement of compliance—continued

The preparation of the Financial Information in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for judgements on the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. Judgements that have a significant effect on the Financial Information and estimates with a significant risk of material adjustments in the subsequent period are discussed in Note 2(22).

The measurement basis used in the preparation of the Financial Information is historical cost, with the exception of certain financial assets and financial liabilities, which are measured at fair value, as stated in Note 2(4).

(2) Translation of foreign currencies

When the Bank receives capital in foreign currencies from investors, the capital is translated to RMB at the spot exchange rates ruling at the date of receipt. Other foreign currency transactions are, on initial recognition, translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates ruling at the transaction dates.

A spot exchange rate is quoted by the PBOC, the State Administration of Foreign Exchange, or a cross rate determined based on quoted exchange rates. A rate that approximates the spot exchange rate is determined by a systematic and rational method, normally the average exchange rate of the current period.

Monetary assets and liabilities denominated in foreign currencies are translated to RMB at the spot exchange rates ruling at the end of each of the Relevant Periods. The resulting exchange differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated to RMB using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rates ruling at the dates the fair value is determined; the exchange differences are recognized in profit or loss, except for the exchange differences arising from the translation of non-monetary available-for-sale financial assets which are recognized in investment revaluation reserve.

(3) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-restricted balances with central bank, short-term deposits and placements with banks and other financial institutions, and highly liquid short-term investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies—continued

(4) Financial instruments

(i) Recognition and measurement of financial assets and liabilities

A financial asset or financial liability is recognized in the statements of financial position when the Bank becomes a party to the contractual provisions of a financial instrument.

The Bank classifies financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any attributable transaction costs are included in their initial costs.

Financial assets and financial liabilities are categorized as follows:

- Financial assets and financial liabilities at fair value through profit or loss

  A financial asset or financial liability is classified as at fair value through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, it is managed in a pattern of short-term profit taking, a derivative, or if it is designated at fair value through profit or loss.

  Financial assets and financial liabilities are designated at fair value through profit or loss upon initial recognition when:

  - the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis;
  - the designation eliminates or significantly reduces the discrepancies in the recognition or measurement of relevant gains or losses arising from the different basis of measurement of the financial assets or financial liabilities;
  - the financial assets or financial liabilities contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or
  - the separation of the embedded derivatives from the financial instrument is prohibited.

  Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value, without any deduction for transactions costs that may occur on sale, and changes therein are recognized in profit or loss.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies—continued

(4) Financial instruments—continued

(i) Recognition and measurement of financial assets and liabilities—continued

- Held-to-maturity investments

  Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than:

  (a) those that the Bank, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or

  (b) those that meet the definition of loans and receivables.

  Subsequent to initial recognition, held-to-maturity investments are stated at amortized cost using the effective interest method.

- Loans and receivables

  Loans and receivables are non-derivative financial assets held by the Bank with fixed or determinable recoverable amounts that are not quoted in an active market, other than:

  (a) those that the Bank intends to sell immediately or in the near-term, which will be classified as held for trading;

  (b) those that the Bank, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or

  (c) those where the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale.

  Subsequent to initial recognition, loans and receivables are stated at amortized cost using the effective interest method.

- Available-for-sale financial assets

  Available-for-sale financial assets include non-derivative financial assets that are designated upon initial recognition as available-for-sale and other financial assets which do not fall into any of the above categories.

  Subsequent to initial recognition, available-for-sale financial assets are measured at fair value, without any deduction for transaction costs that may occur on sale, and changes therein, except for impairment losses and foreign exchange gains and losses from monetary financial assets, are recognized directly in other comprehensive income. Investments in available-for-sale equity instruments that do not have a quoted price in an active market and whose fair value cannot be reliably measured, are measured at cost less impairment losses, if any. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is reclassified to profit or loss.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies—continued

(4) Financial instruments—continued

(i) Recognition and measurement of financial assets and liabilities—continued

- Other financial liabilities

  Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

  Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

(ii) Impairment of financial assets

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed by the Bank at the end of each of the Relevant Periods to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is recognized in profit or loss. Objective evidence of impairment in a financial asset represents events that occur after the initial recognition of the financial asset and have impact on the estimated future cash flows of the asset, which can be estimated reliably.

Objective evidence includes the following loss event:

— significant financial difficulty of the issuer or borrower;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;

— disappearance of an active market for financial assets because of financial difficulties;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

- Loans and receivables

  The Bank uses two methods of assessing impairment losses: those assessed individually and those assessed on a collective basis.

  Individual assessment

  Loans and receivables, which are considered individually significant, are assessed individually for impairment. If there is objective evidence of impairment of loans and receivables, the amount of loss is measured as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. The impairment losses are recognized in profit or loss.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies—continued

(4) Financial instruments—continued

(ii) Impairment of financial assets—continued

- Loans and receivables—continued

  It may not be possible to identify a single, discrete event that caused the impairment but it may be possible to identify impairment through the combined effect of several events.

  Cash flows relating to short-term loans and receivables are not discounted when assessing impairment loss if the difference between the estimated future cash flows and its present value is immaterial.

  The calculation of the present value of the estimated future cash flows of a collateralized loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

  Collective assessment

  Loans and receivables which are assessed collectively for impairment include individually assessed loans and receivables with no objective evidence of impairment on an individual basis, and homogeneous groups of loans and receivables which are not considered individually significant and not assessed individually. Loans and receivables are grouped for similar credit risk characteristics for collective assessment. The objective evidence of impairment mainly includes that, though it is unable to identify the decrease of cash flow of each individual asset, after collective assessment based on observable data, there is observable evidence indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets.

  When impairment is assessed collectively, the Bank uses statistical modelling and considers historical trends of various factors such as credit quality, loan portfolio size, concentrations and economic factors. In order to estimate the provision for the impairment losses, the Bank makes assumptions both to define the way the Bank models inherent losses and to determine the required input parameters, based on historical experience and current economic conditions.

  The emergence period between a loss occurring and its identification is determined by management based on the historical experience of the markets where the Bank operates.

  As soon as information is available that specifically identifies objective evidence of impairment on individual assets in a portfolio, those assets are removed from the portfolio of financial assets. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment for impairment.

  The Bank periodically reviews and assesses the impaired loans and receivables for any subsequent changes to the estimated recoverable amounts and the resulted changes in the provision for impairment losses.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies—continued

(4) Financial instruments—continued

(ii) Impairment of financial assets—continued

- Loans and receivables—continued

  If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortized cost at the date of the reversal had the impairment not been recognized.

  When the Bank determines that a loan or receivable has no reasonable prospect of recovery after the Bank has completed all the necessary legal or other claim proceedings, the loan or receivable is written off against its provision for impairment losses upon necessary approval. If in a subsequent period the loan written off is recovered, the amount recovered is recognized in profit or loss through impairment losses.

  Rescheduled loans are loans that have been restructured due to deterioration in the borrower's financial position to the extent that the borrower is unable to repay according to the original terms and where the Bank has made concessions that it would not otherwise consider under normal circumstances. Rescheduled loans are assessed individually and classified as impaired loans upon restructuring. Rescheduled loans are subject to ongoing monitoring. Once a rescheduled loan meets specific conditions, it is no longer considered as impaired.

- Held-to-maturity investments

  The impairment loss is calculated based on the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognized in profit or loss.

  If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortized cost at the date of the reversal had the impairment not been recognized.

- Available-for-sale financial assets

  When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognized in other comprehensive income is reclassified to profit or loss even though the financial asset has not been derecognized.

  The amount of the cumulative loss that is removed from equity is the difference between the acquisition cost net of any principal repayment and amortization and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies—continued

(4) Financial instruments—continued

(ii) Impairment of financial assets—continued

- Available-for-sale financial assets—continued

  If, after an impairment loss has been recognized on available-for-sale debt instruments, the fair value of the assets increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. An impairment loss recognized for an equity instrument classified as available-for-sale is not reversed through profit or loss but recognized directly in other comprehensive income.

  For investments in equity instruments carried at cost, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset, and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognized in profit or loss. Impairment losses for equity instruments carried at cost are not reversed.

(iii) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets at a bid price and liabilities at an ask price.

(iv) Derecognition of financial assets and financial liabilities

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

B NOTES TO THE FINANCIAL INFORMATION—continued
(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies—continued

(4) Financial instruments—continued

(iv) Derecognition of financial assets and financial liabilities—continued

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognized on its statements of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognized. Examples of such transactions are securities sale and repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. An asset or liability is recognized for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position when the Bank has a legally enforceable right to set off the recognized amounts and the transactions are intended to be settled on a net basis, or by realizing the asset and settling the liability simultaneously.

(5) Financial assets held under resale and repurchase agreements

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are carried in the statements of financial position at amortized cost.

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statements of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortized cost.

B NOTES TO THE FINANCIAL INFORMATION—continued
(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies—continued

(5) Financial assets held under resale and repurchase agreements—continued

Interest earned on resale agreements and interest incurred on repurchase agreements are recognized respectively as interest income and interest expense over the life of each agreement using the effective interest method.

(6) Property and equipment

Property and equipment are tangible assets held by the Bank for operation and administration purposes with useful lives over one year.

Property and equipment are stated in the statements of financial position at cost less accumulated depreciation and impairment loss (Note 2(10)). Construction in progress ("CIP") is stated in the statements of financial position at cost less impairment loss (Note 2(10)).

The cost of a purchased property and equipment asset comprises the purchase price, related taxes, and any expenditure directly attributable to bringing the asset into working condition for its intended use.

All direct and indirect costs that are related to the construction of property and equipment and incurred before the assets are ready for their intended use are capitalized as the cost of construction in progress. No depreciation is provided against construction in progress.

Where the individual component parts of an item of property and equipment have different useful lives or provide benefits to the Bank in different patterns, each part is depreciated separately.

The subsequent costs including the cost of replacing part of an item of property and equipment are recognized in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

Property and equipment are depreciated using the straight-line method over their estimated useful lives, after taking into account their estimated residual values. The estimated useful lives, residual values and depreciation rates of each class of property and equipment are as follows:

	Estimated useful lives	Estimated net residual value	Depreciation rate
Premises	20-50 years	3%-5%	1.90%-4.85%
Machinery equipment and others	5-10 years	3%-5%	9.50%-19.40%
Vehicles	5 years	3%-5%	19.00%-19.40%
Electronic equipment	3-5 years	3%-5%	19.00%-32.33%

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies—continued

(7) Operating lease

Lease payments under operating leases are recognized as costs or expenses on a straight-line basis over the lease term. Lease incentives received are recognized in profit or loss as an integral part of the aggregate net lease payments made. Contingent lease payments are recognized as expenses in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortized on a straight-line basis over the period of the lease term.

(8) Intangible assets

The intangible assets of the Bank have finite useful lives. The intangible assets are stated in the statements of financial position at cost less accumulated amortization and impairment losses (Note 2(10)). The cost of intangible assets less residual value and impairment losses is amortized on a straight-line basis over the estimated useful lives.

The respective amortization periods for intangible assets are as follows:

Software	3-5 years

(9) Repossessed assets

Repossessed assets are initially accounted at fair value, and are subsequently measured at the lower of the carrying value and net recoverable amount. If the recoverable amount is lower than the carrying value of the repossessed assets, the assets are written down to the recoverable amount.

(10) Provision for impairment losses on non-financial assets

The carrying amounts of the following assets are reviewed at the end of each of the Relevant Periods based on the internal and external sources of information to determine whether there is any indication of impairment:

- property and equipment
- pre-paid interest in leasehold land classified as being held under an operating lease
- intangible assets
- investments in subsidiaries, associates and joint ventures

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies—continued

(10) Provision for impairment losses on non-financial assets—continued

A Cash-Generating Unit (the "CGU") is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. A CGU is composed of assets directly relating to cash-generation. Identification of a CGU is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Bank also considers how management monitors the Bank's operations and how management makes decisions about continuing or disposing of the Bank's assets.

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called "asset") is the greater of its fair value less costs of disposal and value in use. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset; if it is not possible to estimate the recoverable amount of the individual asset, the Bank determines the recoverable amount of the asset group to which the assets belongs.

An asset's fair value less costs of disposal is the amount determined by the price of a sale agreement in an arm's length transaction, less the costs that are directly attributable to the disposal of the asset. The value in use of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized in profit or loss if the carrying amount of an asset exceeds its recoverable amount. A provision for an impairment loss of the asset is recognized accordingly. Impairment losses related to an asset group or a set of asset groups are allocated first to reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups and then, to reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, the carrying amount of an impaired asset will not be reduced below the highest of its individual fair value less costs of disposal (if measurable), value in use (if measurable) and zero.

An impairment loss in respect of goodwill is not reversed. If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior periods.

(11) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

B NOTES TO THE FINANCIAL INFORMATION—continued
(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies—continued

(11) Employee benefits—continued

(i) Short term employee benefits and contributions to defined contribution retirement plans—continued

The defined contribution retirement plans of the Bank include the social pension schemes and an annuity plan.

<u>Social pension schemes</u>

Pursuant to the relevant laws and regulations in the PRC, the Bank has participated in the social pension schemes for employees arranged by local government labor and security authorities. The Bank makes contributions to the retirement schemes at the applicable rates based on the amounts stipulated by the government. The contributions are charged to profit or loss on an accrual basis. When employees retire, the local government labor and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

<u>Annuity plan</u>

The Bank provides an annuity plan to the eligible employees. The Bank makes annuity contributions in proportion to its employees' total salaries and bonuses, which are charged to profit or loss when the contributions are made.

<u>Housing fund and other social insurances</u>

In addition to the retirement benefits above, the Bank has joined social security contributions schemes for employees pursuant to the relevant laws, regulations and policies of the PRC. These schemes include a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Bank makes monthly contributions to the housing fund and other social insurances schemes at the applicable rates based on the amounts stipulated by the relevant government authorities. The contributions are charged to profit or loss on an accrual basis.

(ii) Supplementary retirement benefits

<u>Early retirement plan</u>

The Bank provides early retirement benefit payments to employees who voluntarily agreed to retire early for the period from the date of early retirement to the regulated retirement date. The benefit is discounted to determine the present value based on certain assumptions. The calculation is performed by a qualified actuary using the expected cumulative unit credit method. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognized in profit or loss when incurred.

B NOTES TO THE FINANCIAL INFORMATION—continued
(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies—continued

(11) Employee benefits—continued

(ii) Supplementary retirement benefits—continued

Supplementary retirement plan

The Bank provides a supplementary retirement plan to its eligible employees. The Bank's obligations in respect of the supplementary retirement plan are calculated by estimating the present value of the total amount of future benefits that the Bank is committed to pay to the employees after their retirement. The calculation is performed by a qualified actuary using the expected cumulative unit credit method. Such obligations were discounted at the interest yield of government bonds with similar duration at the reporting date. The related service cost and net interest from the retirement plan are recognized in profit or loss, and the actuarial gains and losses arising from remeasurements are recognized in other comprehensive income.

Early retirement plan and supplementary retirement plan thereafter collectively referred to as "supplementary retirement benefits".

(12) Income tax

Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to items that are recognized in other comprehensive income, in which case the relevant amounts of tax are recognized in other comprehensive income.

Current tax is the expected tax payable calculated at the applicable tax rate on the taxable income for the period, and any adjustment to tax payable in respect of previous years.

At the end of each of the Relevant Periods, current tax assets and liabilities are offset if the taxable entity has a legally enforceable right to set off them and the entity intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases, which include the deductible losses and tax credits carried forward to subsequent periods. Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be used.

Deferred tax is not recognized for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or tax loss). Deferred tax is not recognized for taxable temporary differences arising from the initial recognition of goodwill.

At the end of each of the Relevant Periods, the amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities using tax rates that are expected to be applied in the period when the asset is realized or the liability is settled in accordance with tax laws.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies—continued

(12) Income tax—continued

The carrying amount of a deferred tax asset is reviewed at the end of each of the Relevant Periods. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the benefit of the deferred tax asset to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

At the end of each of the Relevant Periods, deferred tax assets and liabilities are offset if all the following conditions are met:

- the taxable entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- they relate to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities, simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(13) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (the "guarantor") to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss that the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The fair value of the guarantee (being the guarantee fees received) is initially recognized as deferred income in other liabilities. The deferred income is amortized in profit or loss over the term of the guarantee as income from financial guarantees issued. Provisions are recognized in the statements of financial position in accordance with Note 2(13)(ii) if and when it becomes probable that the holder of the guarantee will call upon the Bank under the guarantee, and the amount of that claim on the Bank is expected to exceed the carrying amount of the deferred income.

(ii) Other provisions and contingent liabilities

A provision is recognized for an obligation related to a contingency if the Bank has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies—continued

(13) Financial guarantees issued, provisions and contingent liabilities—continued

(ii) Other provisions and contingent liabilities—continued

confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(14) Fiduciary activities

The Bank acts in fiduciary activities as a manager, a custodian, or an agent for customers. Assets held by the Bank and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Bank enters into entrusted loan agreements with customers, whereby the customers provide funding (the "entrusted funds") to the Bank, and the Bank grants loans to third parties (the "entrusted loans") under instructions of the customers. As the Bank does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

(15) Income recognition

Income is the gross inflow of economic benefit in the periods arising in the course of the Bank's ordinary activities when the inflows result in an increase in shareholder's equity, other than an increase relating to contributions from shareholders. Income is recognized in profit or loss when it is probable that the economic benefits will flow to the Bank, the income and costs can be measured reliably and the following respective conditions are met:

(i) Interest income

Interest income for financial assets is recognized in profit or loss as it is incurred, based on the time for alienation of right to use capital and effective interest rates. Interest income includes the amortization of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest rate.

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the Relevant Periods. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate.

Interest on the impaired assets is recognized using the rate of interest used to discount future cash flows ("unwinding of discount") for the purpose of measuring the related impairment loss.

B NOTES TO THE FINANCIAL INFORMATION—continued
(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies—continued

(15) Income recognition—continued

(ii) Fee and commission income

Fee and commission income is recognized in profit or loss when the corresponding service is provided.

Origination or commitment fees received by the Bank which result in the creation or acquisition of a financial asset are deferred and recognized as an adjustment to the effective interest rate. If the commitment expires without making a loan, the fee is recognized as fee and commission income upon its expiry.

(iii) Other income

Other income is recognized on an accrual basis.

(16) Expenses recognition

(i) Interest expenses

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortized cost and the applicable effective interest rate.

(ii) Other expenses

Other expenses are recognized on an accrual basis.

(17) Dividends

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorized and declared after the end of each of the Relevant Periods are not recognized as a liability at the end of each of the Relevant Periods but disclosed separately in the notes to the Financial Information.

(18) Related parties

The related parties of the Bank include but are not limited to:

(i) A person, or a close member of that person's family, if that person:

- (a) has significant influence over the Bank; or
- (b) is a member of the key management personnel of the Bank.

(ii) An entity, if that entity:

- (a) has significant influence over the Bank;
- (b) controls an entity identified in (ii)(a);
- (c) is controlled or jointly controlled by an entity identified in (ii)(a) and (ii)(b);
- (d) is controlled or jointly controlled by a person identified in (i).

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies—continued

(18) Related parties—continued

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(19) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Bank's internal organization, management requirements and internal reporting system, whose operating results are regularly reviewed by the Bank's management to make decisions about resources to be allocated to the segment and assess its performance. Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of services, the type or class of customers, the methods used to provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated as "others" segment if they share a majority of these criteria.

(20) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Bank. The Bank controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Bank has power, only substantive rights (held by the Bank and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-bank balances, transactions and cash flows and any unrealized profits arising from intra-bank transactions are eliminated in full in preparing the consolidated financial statements. Unrealized losses resulting from intra-bank transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Bank, and in respect of which the Bank has not agreed any additional terms with the holders of those interests which would result in the Bank as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Bank can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statements of financial position within equity, separately from equity attributable to the equity shareholders of the Bank. Non-controlling interests in the results of the Bank are presented on the face of the consolidated statements of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income between non-controlling interests and the equity shareholders of the Bank.

In the Bank's statements of financial position, an investment in a subsidiary is stated at cost less impairment losses (Note 2(10)). The results of subsidiaries are accounted for by the Bank on the basis of dividends received and receivable.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies—continued

(21) Associates and joint ventures

An associate is an entity in which the Bank has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Bank and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements of the Bank under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Bank's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Bank's share of the investee's net assets and any impairment loss relating to the investment (Note 2(10)). Any acquisition-date excess over cost, the Bank's share of the post-acquisition, post-tax results of the investees and any impairment losses for the period are recognized in profit or loss, whereas the Bank's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognized in other comprehensive income of the Bank. The Bank's interest in associate or joint venture is included in the consolidated financial statements from the date that significant influence or joint control commences until the date that significant influence or joint control ends.

When the Bank's share of losses exceeds its interest in the associate or the joint venture, the Bank's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Bank's interest is the carrying amount of the investment under the equity method together with the Bank's long-term interests that in substance form part of the Bank's net investment in the associate or the joint venture.

Unrealized profits and losses resulting from transactions between the Bank and its associate and joint venture are eliminated to the extent of the Bank's interest in the investee, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Bank ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (Note 2(4)).

B NOTES TO THE FINANCIAL INFORMATION—continued
(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies—continued

(22) Significant accounting estimates and judgements

The preparation of the Financial Information requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

(i) Impairment losses on loans and advances to customers and financial investments (available-for-sale financial assets, held-to-maturity investments and loans and receivables)

The Bank reviews portfolios of loans and advances to customers and financial investments periodically to assess whether any impairment losses exist and the amount of impairment losses if there is any indication of impairment. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows for loans and advances to customers and financial investments. It also includes observable data indicating adverse changes in the repayment status of the debtors, or change in national or local economic conditions that causes the default in payment.

The impairment loss for loans and advances to customers, and debt investments that is individually assessed for impairment is the net decrease in the estimated discounted future cash flow of the assets. When the financial assets are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the financial assets. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions and the judgement based on management's historical experience. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss.

The objective evidence of impairment for an available-for-sale equity investment includes significant or prolonged decline in its fair value below its cost. When deciding whether there is significant or prolonged decline in fair value, the Bank will consider the historical fluctuation records of market and debtors' credit condition, financial position and performance of related industry.

(ii) Fair value of financial instruments

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

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies—continued

(22) Significant accounting estimates and judgements—continued

(iii) Classification of held-to-maturity investments

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

(iv) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Bank carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reviewed periodically to take into account all changes in tax legislation. Deferred tax assets are recognized for 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 judgement 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 be available against which deductible temporary differences can be utilized.

(v) Impairment of non-financial assets

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

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

(vi) Depreciation and 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 Relevant Periods. The estimated useful lives are determined based on historical experiences of similar assets and estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortization, the amount of depreciation or amortization will be revised.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Net interest income

	Years ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
				(unaudited)	
Interest income arising from					
Deposits with central bank	202,109	262,960	302,888	146,780	149,615
Deposits with banks and other financial institutions	97,697	159,516	206,469	121,473	25,470
Placements with banks and other financial institutions	101,765	81,837	62,613	41,888	8,458
Financial assets at fair value through profit or loss	15,338	22,071	15,211	6,239	9,085
Loans and advances to customers					
—Corporate loans and advances	2,099,805	2,509,504	2,768,767	1,410,716	1,516,190
—Personal loans and advances	670,087	880,194	1,022,054	499,541	564,237
—Discounted bills	122,513	123,444	151,470	67,996	62,859
Financial assets held under resale agreements	325,647	520,747	436,848	257,052	136,805
Financial investments	866,599	1,559,088	2,629,069	1,172,432	1,774,782
Sub-total	4,501,560	6,119,361	7,595,389	3,724,117	4,247,501
Interest expense arising from					
Borrowings from central bank	—	(11,959)	(20,011)	(9,743)	(13,109)
Deposits from banks and other financial institutions	(151,490)	(494,554)	(889,349)	(414,779)	(568,053)
Placements from banks and other financial institutions	(53,165)	(48,610)	(54,145)	(37,983)	(7,912)
Deposits from customers	(1,365,934)	(1,842,542)	(2,224,088)	(1,066,330)	(1,146,650)
Financial assets sold under repurchase agreements	(323,600)	(436,551)	(532,536)	(303,531)	(226,691)
Debt securities issued	—	(197,361)	(278,924)	(118,407)	(334,611)
Sub-total	(1,894,189)	(3,031,577)	(3,999,053)	(1,950,773)	(2,297,026)
Net interest income	2,607,371	3,087,784	3,596,336	1,773,344	1,950,475
Of which:					
Interest income arising from impaired financial assets identified	12,470	17,183	20,875	9,871	13,433

Notes:

(1) Interest expense on financial liabilities with maturity over five years mainly included the interest expense on deposits from customers and subordinated debts issued.

(2) Total interest income arising from financial assets that are not at fair value through profit or loss for the years ended December 31, 2012, 2013 and 2014 and for the six months ended June 30, 2014 and 2015 amounted to RMB4,486 million, RMB6,097 million, RMB7,580 million, RMB3,718 million and RMB4,238 million, respectively.

Total interest expense arising from financial liabilities that are not at fair value through profit or loss for the years ended December 31, 2012, 2013 and 2014 and for the six months ended June 30, 2014 and 2015 amounted to RMB1,894 million, RMB 3,032 million, RMB3,999 million, RMB1,951 million and RMB2,297 million, respectively.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

4 Net fee and commission income

	Years ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
				(unaudited)	
Fee and commission income					
Settlement fees	192,886	202,385	327,898	213,937	142,215
Agency service fees	18,141	78,166	205,508	111,340	112,067
Custody service fees	6,667	76,953	107,758	66,449	55,777
Wealth management service fees	5,378	54,496	39,365	20,704	72,383
Bank card service fees	13,639	17,331	18,910	8,764	11,262
Others	16,004	27,306	21,583	13,238	13,098
Sub-total	252,715	456,637	721,022	434,432	406,802
Fee and commission expense	(17,217)	(31,307)	(32,271)	(17,793)	(13,535)
Net fee and commission income	235,498	425,330	688,751	416,639	393,267

5 Net trading gains

	Years ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
				(unaudited)	
Net gains from debt securities	9,500	832	9,812	7,825	3,056
Net foreign exchange gains	11,201	6,573	23,818	12,540	8,723
Total	20,701	7,405	33,630	20,365	11,779

Net gains from debt securities include gains arising from the buying and selling of, and changes in the fair value of financial assets at fair value through profit or loss.

Net foreign exchange gains mainly include gains from purchase and sale of foreign currency spot.

6 Net gains arising from investments

	Years ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
				(unaudited)	
Dividends from available-for-sale equity investments	350	400	450	—	—
Net gains on disposal of available-for-sale financial assets	4,360	662	10,766	7,128	35,909
Total	4,710	1,062	11,216	7,128	35,909

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

7 Other operating income

	Years ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
				(unaudited)	
Net gains/ (losses) on disposal of property and equipment	14,491	14,457	37,658	(205)	477
Rental income	1,756	1,379	1,396	269	533
Other operating income/ (expenses)	2,433	18,875	(3,935)	(586)	6,758
Total	18,680	34,711	35,119	(522)	7,768

8 Operating expenses

	Years ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
				(unaudited)	
Staff costs					
—Salaries, bonuses and allowances	406,639	527,071	690,907	281,902	331,123
—Social insurance and housing allowances	100,563	114,791	103,637	47,902	56,049
—Staff welfare expenses	57,436	63,707	73,838	16,300	18,338
—Staff education expenses	10,163	13,023	17,261	7,046	8,240
—Labor union expenses	8,130	6,005	13,809	5,634	6,592
—Contribution to annuity funds	28,950	33,861	43,905	21,952	28,776
—Others (Note (1))	8,644	8,150	15,274	1,018	(176,109)
Sub-total	620,525	766,608	958,631	381,754	273,009
Property and equipment expenses					
—Depreciation and amortization	151,981	189,043	240,880	114,465	139,927
—Electronic equipment operating expenses	56,464	54,122	75,917	28,321	33,454
—Maintenance	38,918	54,801	60,634	21,845	18,634
Sub-total	247,363	297,966	377,431	164,631	192,015
—Business tax and surcharges	180,328	229,398	266,439	138,907	147,095
—Other general and administrative expenses (Note (2))	332,147	394,972	392,752	153,607	138,219
Total	1,380,363	1,688,944	1,995,253	838,899	750,338

Notes:

(1) The Bank amended its supplementary retirement benefits plan in 2015 and the decrease in present value of the defined benefit obligation resulting from the amendments to supplementary retirement benefits plan (amounting to RMB178 million) was recognized in profit or loss.

(2) Other general and administrative expenses contain auditors' remunerations which amounted RMB1.05 million, RMB1.20 million, RMB1.28 million for the years ended December 31, 2012, 2013 and 2014, nil for the six months ended June 30, 2014, and RMB0.9 million for the six months ended June 30, 2015, respectively.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

9 Directors' and supervisors' emoluments

The emoluments before individual income tax in respect of the directors and supervisors during the Relevant Periods are as follows:

	Year ended December 31, 2012					
Name	Fees	Salaries	Discretionary bonuses	Contributions to pension schemes	Other benefits	Total emoluments before tax
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors						
GUO Shaoquan	—	815	850	191	53	1,909
WANG Lin	—	659	850	62	53	1,624
YANG Fengjiang (Note (1))	—	546	700	96	53	1,395
Non-executive directors						
YANG Mianmian	74	—	—	—	—	74
Rosario STRANO (Note (1) / (2))	—	—	—	—	—	—
WANG Jianhui	74	—	—	—	—	74
TAN Lixia (Note (1))	37	—	—	—	—	37
Marco MUSSITA (Note (2))	—	—	—	—	—	—
Fabrizio CENTRONE (Note (1) / (2))	—	—	—	—	—	—
CUI Shaohua (Note (1))	37	—	—	—	—	37
HU Jizhi (Note (1))	37	—	—	—	—	37
Independent non-executive directors						
WANG Jialing (Note (3))	—	—	—	—	—	—
WANG Jincheng (Note (4))	—	—	—	—	—	—
WANG Zhuquan (Note (1))	37	—	—	—	—	37
SHI Yucheng (Note (2) / (4))	—	—	—	—	—	—
ZHOU Liqun (Note (2) / (4))	—	—	—	—	—	—
LI Hongyang (Note (4))	37	—	—	—	—	37
Supervisors						
ZOU Junqiu	—	550	700	96	53	1,399
TAN Lixia (Note (1))	24	—	—	—	—	24
LI Zhanguo (Note (1))	24	—	—	—	—	24
FAN Jianjun	48	—	—	—	—	48
SUN Jigang	—	226	471	74	52	823
XU Wansheng	—	225	441	74	52	792
LU Zhengming	48	—	—	—	—	48
ZHANG Xu	48	—	—	—	—	48
Total	525	3,021	4,012	593	316	8,467

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

9 Directors' and supervisors' emoluments—continued

The emoluments before individual income tax in respect of the directors and supervisors during the Relevant Periods are as follows (continued):

	Year ended December 31, 2013					
Name	Fees	Salaries	Discretionary bonuses	Contributions to pension schemes	Other benefits	Total emoluments before tax
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors						
GUO Shaoquan	—	868	848	153	58	1,927
WANG Lin	—	789	848	141	58	1,836
YANG Fengjiang	—	616	700	120	58	1,494
Non-executive directors						
YANG Mianmian	119	—	—	—	—	119
Rosario STRANO (Note (2))	—	—	—	—	—	—
WANG Jianhui	100	—	—	—	—	100
TAN Lixia	119	—	—	—	—	119
Marco MUSSITA (Note (2))	—	—	—	—	—	—
Independent non-executive directors						
WANG Jialing	177	—	—	—	—	177
WANG Jincheng	178	—	—	—	—	178
WANG Zhuquan	182	—	—	—	—	182
DU Wenhe (Note (5))	—	—	—	—	—	—
SHI Yucheng (Note (2) / (5))	—	—	—	—	—	—
Supervisors						
ZOU Junqiu	—	616	700	120	58	1,494
LI Zhanguo	73	—	—	—	—	73
FAN Jianjun	78	—	—	—	—	78
SUN Jigang	—	342	497	81	57	977
XU Wansheng	—	343	497	80	57	977
LU Zhengming	114	—	—	—	—	114
ZHANG Xu	114	—	—	—	—	114
Total	1,254	3,574	4,090	695	346	9,959

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

9 Directors' and supervisors' emoluments—continued

The emoluments before individual income tax in respect of the directors and supervisors during the Relevant Periods are as follows (continued):

	Year ended December 31, 2014					
Name	Fees	Salaries	Discretionary bonuses	Contributions to pension schemes	Other benefits	Total emoluments before tax
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors						
GUO Shaoquan	—	868	848	160	64	1,940
WANG Lin	—	789	848	154	64	1,855
YANG Fengjiang	—	616	700	128	64	1,508
Non-executive directors						
YANG Mianmian	119	—	—	—	—	119
Rosario STRANO (Note (2))	—	—	—	—	—	—
WANG Jianhui	106	—	—	—	—	106
TAN Lixia	119	—	—	—	—	119
Marco MUSSITA (Note (2))	—	—	—	—	—	—
Independent non-executive directors						
WANG Jialing	163	—	—	—	—	163
WANG Jincheng (Note (6))	85	—	—	—	—	85
WANG Zhuquan	177	—	—	—	—	177
DU Wenhe	177	—	—	—	—	177
Supervisors						
ZOU Junqiu	—	616	700	128	64	1,508
LI Zhanguo	73	—	—	—	—	73
FAN Jianjun	86	—	—	—	—	86
SUN Jigang	—	355	397	99	64	915
XU Wansheng	—	356	397	99	64	916
LU Zhengming	123	—	—	—	—	123
ZHANG Xu	123	—	—	—	—	123
Total	1,351	3,600	3,890	768	384	9,993

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

9 Directors' and supervisors' emoluments—continued

The emoluments before individual income tax in respect of the directors and supervisors during the Relevant Periods are as follows (continued):

	Six months ended June 30, 2014 (Unaudited)					
Name	Fees	Salaries	Discretionary bonuses	Contributions to pension schemes	Other benefits	Total emoluments before tax
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors						
GUO Shaoquan	—	434	340	80	31	885
WANG Lin	—	395	340	77	31	843
YANG Fengjiang	—	331	273	64	31	699
Non-executive directors						
YANG Mianmian	57	—	—	—	—	57
Rosario STRANO (Note (2))	—	—	—	—	—	—
WANG Jianhui	50	—	—	—	—	50
TAN Lixia	57	—	—	—	—	57
Marco MUSSITA (Note (2))	—	—	—	—	—	—
Independent non-executive directors						
WANG Jialing	78	—	—	—	—	78
WANG Jincheng (Note (6))	85	—	—	—	—	85
WANG Zhuquan	85	—	—	—	—	85
DU Wenhe	85	—	—	—	—	85
Supervisors						
ZOU Junqiu	—	331	273	64	31	699
LI Zhanguo	38	—	—	—	—	38
FAN Jianjun	43	—	—	—	—	43
SUN Jigang	—	193	94	50	30	367
XU Wansheng	—	194	94	50	30	368
LU Zhengming	61	—	—	—	—	61
ZHANG Xu	61	—	—	—	—	61
Total	700	1,878	1,414	385	184	4,561

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

9 Directors' and supervisors' emoluments—continued

The emoluments before individual income tax in respect of the directors and supervisors during the Relevant Periods are as follows (continued):

	Six months ended June 30, 2015					
Name	Fees	Salaries	Discretionary bonuses	Contributions to pension schemes	Other benefits	Total emoluments before tax
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors						
GUO Shaoquan	—	434	340	82	35	891
WANG Lin	—	395	340	79	35	849
YANG Fengjiang	—	331	273	66	35	705
Non-executive directors						
YANG Mianmian (Note (7))	57	—	—	—	—	57
Rosario STRANO (Note (2))	—	—	—	—	—	—
WANG Jianhui	56	—	—	—	—	56
TAN Lixia	63	—	—	—	—	63
Marco MUSSITA (Note (2))	—	—	—	—	—	—
ZHOU Yunjie (Note (7))	6	—	—	—	—	6
Independent non-executive directors						
WANG Jialing (Note (7))	85	—	—	—	—	85
WANG Zhuquan	91	—	—	—	—	91
DU Wenhe	91	—	—	—	—	91
WONG Tin Yau, Kelvin (Note (7))	6	—	—	—	—	6
CHEN Hua ((Note (7))	6	—	—	—	—	6
Supervisors						
ZOU Junqiu	—	331	273	66	35	705
LI Zhanguo ((Note (7))	39	—	—	—	—	39
FAN Jianjun	43	—	—	—	—	43
SUN Jigang	—	195	112	50	34	391
XU Wansheng	—	195	112	50	34	391
LU Zhengming ((Note (7))	57	—	—	—	—	57
ZHANG Xu ((Note (7))	57	—	—	—	—	57
WANG Jianhua ((Note (7))	4	—	—	—	—	4
FU Changxiang ((Note (7))	4	—	—	—	—	4
HU Yanjing ((Note (7))	4	—	—	—	—	4
Total	669	1,881	1,450	393	208	4,601

Notes:

(1) The Bank convened its first 2012 extraordinary general meeting ("EGM") on April 10, 2012. Mr. YANG Fengjiang was elected as its executive director. Mr. Rosario STRANO and Ms. TAN Lixia were elected as its non-executive directors ("NED"). Mr. Fabrizio CENTRONE, Mr. CUI Shaohua and Mr. HU Jizhi no longer acted as its non-executive directors. Mr. WANG Zhuquan was elected as its independent non-executive director ("INED"). Mr. LI Zhanguo was elected as its supervisor. Ms. TAN Lixia no longer acted as its supervisor.

(2) The director's fees of Mr. Rosario STRANO, Mr. Marco MUSSITA, Mr. Fabrizio CENTRONE, Mr. SHI Yucheng and Mr. ZHOU liqun were waived with their authorization.

(3) The director's fees of Ms. WANG Jialing for the year of 2012 were waived with her authorization.

(4) The Bank convened its second 2012 EGM on September 27, 2012. Mr. WANG Jincheng and Mr. SHI Yucheng were elected as its INEDs. Mr. ZHOU Liqun and Mr. LI Hongyang no longer acted as its INEDs.

(5) The Bank convened its first 2013 EGM on December 6, 2013. Mr. DU Wenhe was elected as its INED. Mr. SHI Yucheng no longer acted as its INED.

(6) On April 30, 2014, Mr. WANG Jincheng resigned from the position as an INED of the Bank.

(7) In April 2015, the Bank completed the re-election of the Board of Directors and the Board of Supervisors, and convened its 2014 annual general meeting ("AGM") on April 10, 2015. Mr. ZHOU Yunjie was elected as its NED. Ms. YANG Mianmian no longer acted as its NED. Mr. WONG Tin Yau, Kelvin and Mr. CHEN Hua were elected as its INED. Ms. WANG Jialing no longer acted as its INED. Mr. WANG Jianhua, Mr. FU Changxiang and Mr. HU Yanjing were elected as its supervisor. Mr. LI Zhanguo, Mr. LU Zhengming and Mr. ZHANG Xu no longer acted as its supervisor.

(8) There were no amounts paid during the Relevant Periods to the directors and supervisors in connection with their retirement from employment or as compensation for loss of office with the Bank or as inducement to join. There was no other arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the Relevant Periods.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

10 Individuals with highest emoluments

For each duration of the years ended December 31, 2012, 2013 and 2014 and the six months ended June 30, 2014 and 2015, the five individuals with highest emoluments included three directors and one supervisors, whose emoluments are disclosed in Note 9. The emoluments before individual income tax for rest of the five highest paid individuals for the Relevant Periods are as follows:

	Years ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
				(unaudited)	
Salaries and other emoluments	603	674	680	362	366
Discretionary bonuses	700	700	700	273	273
Contributions to pension schemes	96	120	128	64	66
Total	1,399	1,494	1,508	699	705

The individual whose emoluments before individual income tax are within the following bands is set out below:

	Years ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
				(unaudited)	
HKD nil-1,000,000	—	—	—	1	1
HKD 1,000,001-1,500,000	—	—	—	—	—
HKD 1,500,001-2,000,000	1	1	1	—	—

11 Impairment losses

	Years ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
				(unaudited)	
Loans and advances to customers	283,126	347,278	359,571	180,000	219,664
Financial investments:					
Investment classified as receivables	—	—	50,000	—	20,000
Others	406	1,424	1,707	956	948
Total	283,532	348,702	411,278	180,956	240,612

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

12 Income tax expense

(1) Income tax for the Relevant Periods:

		Years ended December 31,			Six months ended June 30,	
	Note	2012	2013	2014	2014	2015
					(unaudited)	
Current tax		328,393	448,509	535,265	331,014	328,131
Deferred tax	22(2)	(25,356)	(71,777)	(72,096)	(43,599)	6,373
Total		303,037	376,732	463,169	287,415	334,504

(2) Reconciliations between income tax and accounting profit are as follows:

	Years ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
				(unaudited)	
Profit before taxation	1,223,065	1,518,646	1,958,521	1,197,099	1,408,248
Statutory tax rate	25%	25%	25%	25%	25%
Income tax calculated at statutory tax rate	305,766	379,662	489,630	299,275	352,062
Non-deductible expenses					
—Entertainment expenses	4,666	5,342	3,204	1,226	1,080
—Annuity and supplementary medical insurance	6,932	1,562	1,889	1,740	2,981
—Others	1,674	4,580	35	—	697
	13,272	11,484	5,128	2,966	4,758
Non-taxable income (Note (i))	(16,001)	(14,414)	(31,589)	(14,826)	(22,316)
Income tax	303,037	376,732	463,169	287,415	334,504

Note:

(i) Non-taxable income consists of interest income from the PRC government bonds and local government bonds, which are exempt from income tax under the PRC tax regulations.

13 Basic and diluted earnings per share

		Years ended December 31,			Six months ended June 30,	
	Note	2012	2013	2014	2014	2015
					(unaudited)	
Net profit attributable to equity shareholders of the Bank		920,028	1,141,914	1,495,352	909,684	1,073,744
Weighted average number of ordinary shares (in thousands)	13(1)	2,555,977	2,555,977	2,555,977	2,555,977	2,979,550
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)		0.36	0.45	0.59	0.36	0.36

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

13 Basic and diluted earnings per share—continued

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the Relevant Periods.

(1) Weighted average number of ordinary shares (in thousands)

	Years ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
				(unaudited)	
Number of ordinary shares as at January 1	2,555,977	2,555,977	2,555,977	2,555,977	2,555,977
Current increase in weighted average number of ordinary shares	—	—	—	—	423,573
Weighted average number of ordinary shares	2,555,977	2,555,977	2,555,977	2,555,977	2,979,550

In February 2015, the Bank issued 556 million ordinary shares with a nominal value of RMB 1. The detailed information is set out in Note 31.

14 Cash and deposits with central bank

	Note	December 31, 2012	December 31, 2013	December 31, 2014	June 30, 2015
Cash on hand		515,496	674,582	710,364	802,212
Deposits with central bank					
—Statutory deposit reserves	14(1)	13,284,285	17,265,419	18,129,477	17,379,813
—Surplus deposit reserves	14(2)	6,256,603	2,902,276	4,733,748	3,333,240
—Fiscal deposits		15,349	28,380	36,002	36,288
Sub-total		19,556,237	20,196,075	22,899,227	20,749,341
Total		20,071,733	20,870,657	23,609,591	21,551,553

(1) The Bank places statutory deposit reserves with the PBOC in accordance with relevant regulations. As at the end of each of the Relevant Periods, the statutory deposit reserve ratios applicable to the Bank were as follows:

	December 31, 2012	December 31, 2013	December 31, 2014	June 30, 2015
Reserve ratio for RMB deposits	18.0%	18.0%	18.0%	16.5%
Reserve ratio for foreign currency deposits	5.0%	5.0%	5.0%	5.0%

The statutory deposit reserves are not available for the Bank's daily business.

(2) The surplus deposit reserves are maintained with the PBOC mainly for the purpose of clearing.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

15 Deposits with banks and other financial institutions

	December 31, 2012	December 31, 2013	December 31, 2014	June 30, 2015
Deposits in Mainland China				
—Banks	3,414,864	2,174,214	1,627,150	2,747,523
—Other financial institutions	18,124	1,000	—	—
Deposits outside Mainland China				
—Banks	153,048	305,594	391,677	264,766
Total	3,586,036	2,480,808	2,018,827	3,012,289

16 Placements with banks and other financial institutions

	December 31, 2012	December 31, 2013	December 31, 2014	June 30, 2015
Placements in Mainland China				
—Banks	377,130	700,000	666,971	1,356,997
—Other financial institutions	685,520	—	489,520	63
Total	1,062,650	700,000	1,156,491	1,357,060

17 Financial assets at fair value through profit or loss

	December 31, 2012	December 31, 2013	December 31, 2014	June 30, 2015
Debt securities held for trading purpose				
Issued by the following institutions within Mainland China				
—Banks and other financial institutions	—	—	—	141,046
—Corporate entities	283,745	184,496	190,195	151,997
Total	283,745	184,496	190,195	293,043
Unlisted	283,745	184,496	190,195	293,043

18 Financial assets held under resale agreements

(1) Analyzed by type and location of counterparty

	December 31, 2012	December 31, 2013	December 31, 2014	June 30, 2015
In Mainland China				
—Banks	5,857,213	8,207,883	2,697,628	1,015,501
Total	5,857,213	8,207,883	2,697,628	1,015,501

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Financial assets held under resale agreements—continued

(2) Analyzed by type of security held

	December 31, 2012	December 31, 2013	December 31, 2014	June 30, 2015
Discounted bills	5,366,343	4,852,612	2,697,628	1,015,501
Debt securities	490,870	855,271	—	—
Others	—	2,500,000	—	—
Total	5,857,213	8,207,883	2,697,628	1,015,501

19 Loans and advances to customers

(1) Analyzed by nature

	December 31, 2012	December 31, 2013	December 31, 2014	June 30, 2015
Corporate loans and advances				
—Corporate loans	32,705,641	40,721,198	44,216,825	48,659,544
—Discounted bills	1,752,196	1,400,346	2,552,046	2,784,440
Sub-total	34,457,837	42,121,544	46,768,871	51,443,984
Personal loans and advances				
—Personal business loans	6,519,951	7,754,409	7,692,890	7,044,026
—Residential mortgage	3,130,583	3,950,693	6,351,013	9,089,181
—Personal consumption loans	1,083,625	979,148	1,216,767	1,442,844
—Others	530,932	824,393	958,688	938,812
Sub-total	11,265,091	13,508,643	16,219,358	18,514,863
Gross loans and advances to customers	45,722,928	55,630,187	62,988,229	69,958,847
Less: Provision for impairment losses				
—Individually assessed	(125,539)	(125,355)	(275,140)	(259,999)
—Collectively assessed	(1,101,792)	(1,398,907)	(1,464,748)	(1,562,697)
Total provision for impairment losses	(1,227,331)	(1,524,262)	(1,739,888)	(1,822,696)
Net loans and advances to customers	44,495,597	54,105,925	61,248,341	68,136,151

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

19 Loans and advances to customers—continued

(2) Analyzed by economic sector

	December 31, 2012		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	12,547,394	27.44%	3,963,847
Wholesale and retail trade	5,780,108	12.64%	3,830,190
Real estate	4,478,556	9.79%	3,670,556
Construction	2,992,554	6.54%	1,621,904
Production and supply of electric and heating power, gas and water	2,137,418	4.67%	121,200
Renting and business activities	2,036,200	4.45%	1,002,800
Transportation, storage and postal services	1,150,672	2.52%	236,425
Water, environment and public utility management	644,299	1.41%	337,000
Agriculture, forestry, animal husbandry and fishery	525,338	1.15%	263,600
Others	2,165,298	4.75%	1,215,725
Sub-total of corporate loans and advances	34,457,837	75.36%	16,263,247
Personal loans and advances	11,265,091	24.64%	7,955,967
Gross loans and advances to customers	45,722,928	100.00%	24,219,214

	December 31, 2013		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	16,306,770	29.31%	3,811,003
Wholesale and retail trade	6,642,274	11.94%	4,487,643
Construction	4,079,341	7.33%	2,194,841
Real estate	3,923,859	7.05%	3,383,859
Renting and business activities	3,145,690	5.65%	1,531,269
Production and supply of electric and heating power, gas and water	2,202,147	3.96%	172,730
Transportation, storage and postal services	1,429,857	2.57%	139,600
Water, environment and public utility management	1,151,109	2.07%	687,400
Agriculture, forestry, animal husbandry and fishery	613,257	1.10%	218,574
Others	2,627,240	4.74%	1,049,544
Sub-total of corporate loans and advances	42,121,544	75.72%	17,676,463
Personal loans and advances	13,508,643	24.28%	9,836,033
Gross loans and advances to customers	55,630,187	100.00%	27,512,496

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

19 Loans and advances to customers—continued

(2) Analyzed by economic sector—continued

	December 31, 2014		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	18,991,889	30.15%	5,239,207
Wholesale and retail trade	7,053,321	11.20%	4,752,396
Construction	5,131,754	8.15%	2,422,354
Real estate	3,519,673	5.59%	3,174,023
Renting and business activities	3,312,626	5.26%	1,787,550
Water, environment and public utility management	2,005,947	3.18%	1,239,832
Transportation, storage and postal services	1,505,188	2.39%	300,664
Production and supply of electric and heating power, gas and water	1,598,199	2.54%	268,899
Agriculture, forestry, animal husbandry and fishery	661,700	1.05%	208,800
Others	2,988,574	4.74%	886,356
Sub-total of corporate loans and advances	46,768,871	74.25%	20,280,081
Personal loans and advances	16,219,358	25.75%	12,954,719
Gross loans and advances to customers	62,988,229	100.00%	33,234,800

	June 30, 2015		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	19,365,114	27.68%	5,376,569
Wholesale and retail trade	7,626,113	10.90%	5,002,724
Construction	5,837,996	8.34%	2,541,133
Renting and business activities	4,041,825	5.78%	2,073,918
Water, environment and public utility management	3,870,925	5.53%	2,147,333
Real estate	3,221,950	4.61%	2,883,350
Production and supply of electric and heating power, gas and water	2,272,406	3.25%	602,500
Transportation, storage and postal services	1,774,113	2.54%	330,996
Agriculture, forestry, animal husbandry and fishery	752,474	1.08%	274,644
Others	2,681,068	3.82%	948,694
Sub-total of corporate loans and advances	51,443,984	73.53%	22,181,861
Personal loans and advances	18,514,863	26.47%	15,302,016
Gross loans and advances to customers	69,958,847	100.00%	37,483,877

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

19 Loans and advances to customers—continued

(2) Analyzed by economic sector—continued

As at the end of each of the Relevant Periods and during the respective periods, detailed information of the impaired loans and advances to customers as well as the corresponding provision for impairment losses in respect of each economic sector which constitutes 10% or more of gross loans and advances to customers is as follows:

	December 31, 2012				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment losses charged during the year	Written-off during the year
Manufacturing	167,982	64,452	282,821	131,330	2,959
Wholesale and retail trade	86,563	49,417	144,497	14,705	62,335

	December 31, 2013				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment losses charged during the year	Written-off during the year
Manufacturing	195,364	83,450	435,130	171,307	4,199
Wholesale and retail trade	59,751	27,611	174,252	7,949	34,694

	December 31, 2014				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment losses charged during the year	Written-off during the year
Manufacturing	181,856	91,387	475,864	48,671	63,300
Wholesale and retail trade	306,198	151,655	210,634	160,426	27,141

	June 30, 2015				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment losses charged /(released) during the period	Written-off during the period
Manufacturing	227,838	72,152	516,462	21,363	102,681
Wholesale and retail trade	303,629	143,386	171,173	(47,730)	19,361

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

19 Loans and advances to customers—continued

(3) *Analyzed by type of collateral*

	December 31,			June 30,
	2012	2013	2014	2015
Unsecured loans	3,215,572	5,170,319	3,552,292	5,013,946
Guaranteed loans	18,288,141	22,947,371	26,201,135	27,461,025
Loans secured by tangible assets other than monetary assets	19,834,674	22,595,558	26,537,600	29,988,102
Loans secured by intangible assets or monetary assets	4,384,541	4,916,939	6,697,202	7,495,774
Gross loans and advances to customers	45,722,928	55,630,187	62,988,229	69,958,847
Less: Provision for impairment losses				
—Individually assessed	(125,539)	(125,355)	(275,140)	(259,999)
—Collectively assessed	(1,101,792)	(1,398,907)	(1,464,748)	(1,562,697)
Total provision for impairment losses	(1,227,331)	(1,524,262)	(1,739,888)	(1,822,696)
Net loans and advances to customers	44,495,597	54,105,925	61,248,341	68,136,151

(4) *Overdue loans analyzed by overdue period*

	December 31, 2012				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	15	120	23	—	158
Guaranteed loans	100,026	61,806	—	35,449	197,281
Loans secured by tangible assets other than monetary assets	38,538	45,033	140,524	21,591	245,686
Loans secured by intangible assets or monetary assets	74	—	—	—	74
Total	138,653	106,959	140,547	57,040	443,199
As a percentage of gross loans and advances to customers	0.31%	0.23%	0.31%	0.12%	0.97%

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

19 Loans and advances to customers—continued

(4) Overdue loans analyzed by overdue period—continued

	December 31, 2013				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	4,422	—	113	—	4,535
Guaranteed loans	57,304	98,392	79,529	212	235,437
Loans secured by tangible assets other than monetary assets	56,214	44,888	85,968	37,388	224,458
Loans secured by intangible assets or monetary assets	9,930	—	2,169	—	12,099
Total	127,870	143,280	167,779	37,600	476,529
As a percentage of gross loans and advances to customers	0.23%	0.26%	0.30%	0.07%	0.86%

	December 31, 2014				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	21,799	60,963	878	—	83,640
Guaranteed loans	481,142	130,347	17,928	102,681	732,098
Loans secured by tangible assets other than monetary assets	238,203	270,809	77,399	28,082	614,493
Total	741,144	462,119	96,205	130,763	1,430,231
As a percentage of gross loans and advances to customers	1.18%	0.73%	0.15%	0.21%	2.27%

	June 30, 2015				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	20,572	35,371	1,040	—	56,983
Guaranteed loans	1,066,305	296,859	40,766	—	1,403,930
Loans secured by tangible assets other than monetary assets	698,132	289,438	252,494	29,575	1,269,639
Loans secured by intangible assets or monetary assets	8,018	—	—	—	8,018
Total	1,793,027	621,668	294,300	29,575	2,738,570
As a percentage of gross loans and advances to customers	2.56%	0.89%	0.42%	0.04%	3.91%

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

19 Loans and advances to customers—continued

(4) Overdue loans analyzed by overdue period—continued

Overdue loans represent loans, of which the whole or part of the principal or interest were overdue for one day or more.

(5) Loans and advances and provision for impairment losses analysis

	December 31, 2012				
	Loans and advances for which provision are collectively assessed (Note (i))	Impaired loans and advances (Note (ii)) for which provision are collectively assessed	Impaired loans and advances (Note (ii)) for which provision are individually assessed	Total	Gross impaired loans and advances as a percentage of gross loans and advances
Gross loans and advances to customers	45,374,605	59,347	288,976	45,722,928	0.76%
Less: Provision for impairment losses	(1,071,138)	(30,654)	(125,539)	(1,227,331)	
Net loans and advances to customers	44,303,467	28,693	163,437	44,495,597	

	December 31, 2013				
	Loans and advances for which provision are collectively assessed (Note (i))	Impaired loans and advances (Note (ii)) for which provision are collectively assessed	Impaired loans and advances (Note (ii)) for which provision are individually assessed	Total	Gross impaired loans and advances as a percentage of gross loans and advances
Gross loans and advances to customers	55,212,861	116,531	300,795	55,630,187	0.75%
Less: Provision for impairment losses	(1,358,885)	(40,022)	(125,355)	(1,524,262)	
Net loans and advances to customers	53,853,976	76,509	175,440	54,105,925	

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

19 Loans and advances to customers—continued

(5) Loans and advances and provision for impairment losses analysis—continued

	December 31, 2014				
	Loans and advances for which provision are collectively assessed (Note (i))	Impaired loans and advances (Note (ii)) for which provision are collectively assessed	Impaired loans and advances (Note (ii)) for which provision are individually assessed	Total	Gross impaired loans and advances as a percentage of gross loans and advances
Gross loans and advances to customers	62,270,209	171,515	546,505	62,988,229	1.14%
Less: Provision for impairment losses	(1,401,906)	(62,842)	(275,140)	(1,739,888)	
Net loans and advances to customers	60,868,303	108,673	271,365	61,248,341	

	June 30, 2015				
	Loans and advances for which provision are collectively assessed (Note (i))	Impaired loans and advances (Note (ii)) for which provision are collectively assessed	Impaired loans and advances (Note (ii)) for which provision are individually assessed	Total	Gross impaired loans and advances as a percentage of gross loans and advances
Gross loans and advances to customers	69,124,785	229,252	604,810	69,958,847	1.19%
Less: Provision for impairment losses	(1,444,463)	(118,234)	(259,999)	(1,822,696)	
Net loans and advances to customers	67,680,322	111,018	344,811	68,136,151	

Notes:

(i) Loans and advances collectively assessed for impairment bear relatively insignificant risk of impairment. These loans and advances include those which are graded normal or special-mention.

(ii) Impaired loans and advances include those for which objective evidence of impairment has been identified and assessed using the following methods:

— Individually (including corporate loans and advances which are graded substandard, doubtful or loss); or

— Collectively, representing portfolios of homogeneous loans (including personal loans and advances which are graded substandard, doubtful or loss).

(iii) The definitions of the loan classifications, stated in Notes (i) and (ii) above, are set out in Note 37(1).

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

19 Loans and advances to customers—continued

(6) Movements of provision for impairment losses

	2012			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		Total
		which are collectively assessed	which are individually assessed	
As at January 1	812,604	19,339	174,906	1,006,849
Charge for the year	258,534	11,315	57,775	327,624
Release for the year	—	—	(44,498)	(44,498)
Unwinding of discount	—	—	(12,470)	(12,470)
Write-offs	—	—	(65,294)	(65,294)
Recoveries of loans and advances written off and others	—	—	15,120	15,120
As at December 31	1,071,138	30,654	125,539	1,227,331

	2013			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		Total
		which are collectively assessed	which are individually assessed	
As at January 1	1,071,138	30,654	125,539	1,227,331
Charge for the year	287,747	9,368	61,303	358,418
Release for the year	—	—	(11,140)	(11,140)
Unwinding of discount	—	—	(17,183)	(17,183)
Write-offs	—	—	(54,422)	(54,422)
Recoveries of loans and advances written off and others	—	—	21,258	21,258
As at December 31	1,358,885	40,022	125,355	1,524,262

	2014			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		Total
		which are collectively assessed	which are individually assessed	
As at January 1	1,358,885	40,022	125,355	1,524,262
Charge for the year	43,021	22,820	308,399	374,240
Release for the year	—	—	(14,669)	(14,669)
Unwinding of discount	—	—	(20,875)	(20,875)
Write-offs	—	—	(165,186)	(165,186)
Recoveries of loans and advances written off and others	—	—	42,116	42,116
As at December 31	1,401,906	62,842	275,140	1,739,888

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

19 Loans and advances to customers—continued

(6) Movements of provision for impairment losses—continued

	Six months ended June 30, 2015			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances which are collectively assessed	Provision for impaired loans and advances which are individually assessed	Total
As at January 1	1,401,906	62,842	275,140	1,739,888
Charge for the period	42,557	55,392	125,603	223,552
Release for the period	—	—	(3,888)	(3,888)
Unwinding of discount	—	—	(13,433)	(13,433)
Write-offs	—	—	(149,147)	(149,147)
Recoveries of loans and advances written off and others	—	—	25,724	25,724
As at June 30	1,444,463	118,234	259,999	1,822,696

20 Financial investments

	Note	December 31, 2012	December 31, 2013	December 31, 2014	June 30, 2015
Available-for-sale financial assets	20(1)	9,485,515	6,076,865	14,122,539	10,601,348
Held-to-maturity investments	20(2)	13,362,901	18,905,989	19,721,428	21,728,674
Investment classified as receivables	20(3)	562,438	20,469,687	27,209,059	37,342,011
Total		23,410,854	45,452,541	61,053,026	69,672,033

(1) Available-for-sale financial assets

	Note	December 31, 2012	December 31, 2013	December 31, 2014	June 30, 2015
Debt securities	(i)	8,631,306	5,994,039	13,538,992	10,207,372
Wealth management products issued by financial institutions	(ii)	380,658	—	—	—
Trust fund plans	(ii)	400,000	—	300,316	309,837
Investment funds	(ii)	50,301	59,576	259,981	60,889
Equity investment	(iii)	23,250	23,250	23,250	23,250
Total		9,485,515	6,076,865	14,122,539	10,601,348

(i) Debt securities issued by the following institutions:

	December 31, 2012	December 31, 2013	December 31, 2014	June 30, 2015
In Mainland China				
—Government	109,855	—	—	—
—Policy banks	4,389,989	3,311,126	3,806,922	3,614,072
—Banks and other financial institutions	2,950,252	1,267,533	6,773,261	3,775,513
—Corporate entities	1,181,210	1,415,380	2,958,809	2,817,787
Total	8,631,306	5,994,039	13,538,992	10,207,372
Unlisted	8,631,306	5,994,039	13,538,992	10,207,372

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Financial investments—continued

(1) Available-for-sale financial assets—continued

(ii) The wealth management products issued by financial institutions, trust fund plans and investment funds are unlisted investments.

(iii) Available-for-sale unlisted equity investments do not have any quoted market prices and their fair values cannot be measured reliably. Therefore, those equity investments are stated at cost less any impairment losses (if any).

(2) Held-to-maturity investments

	December 31,			June 30,
	2012	2013	2014	2015
In Mainland China				
—Government	933,949	2,343,554	3,084,506	5,374,701
—Policy banks	7,985,631	9,686,609	9,441,005	9,026,894
—Banks and other financial institutions	2,891,377	5,375,390	5,715,970	5,917,491
—Corporate entities	1,551,944	1,500,436	1,479,947	1,409,588
Carrying value	13,362,901	18,905,989	19,721,428	21,728,674
Unlisted	13,362,901	18,905,989	19,721,428	21,728,674
Fair value	13,121,241	17,766,581	19,846,408	21,952,615

(3) Investment classified as receivables

	December 31,			June 30,
	2012	2013	2014	2015
Asset management plans	—	18,792,734	17,803,277	19,857,422
Trust fund plans	—	1,500,000	9,358,000	8,879,749
Beneficiary rights in margin financing	—	—	—	6,029,488
Beneficiary certificates	—	—	—	1,523,964
Wealth management products issued by financial institutions	—	—	—	1,018,904
Others	562,438	176,953	97,782	102,484
Gross amount	562,438	20,469,687	27,259,059	37,412,011
Less: provision for impairment losses	—	—	(50,000)	(70,000)
Total	562,438	20,469,687	27,209,059	37,342,011

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Property and equipment

	Premises	Electronic equipment	Vehicles	Machinery equipment and others	CIP	Total
Cost						
As at January 1, 2012	593,763	182,001	28,377	32,411	22,400	858,952
Additions	6,888	37,243	4,128	5,432	1,440	55,131
CIP transfers	21,910	—	—	—	(21,910)	—
Disposals	(5,571)	(6,229)	(661)	(1,739)	—	(14,200)
As at December 31, 2012	616,990	213,015	31,844	36,104	1,930	899,883
Additions	120,424	83,320	9,786	10,412	—	223,942
Disposals	(22,781)	(7,421)	(1,758)	(2,509)	—	(34,469)
As at December 31, 2013	714,633	288,914	39,872	44,007	1,930	1,089,356
Additions	134,513	41,445	8,919	9,748	—	194,625
Disposals	(16,055)	(5,477)	(2,306)	(224)	—	(24,062)
As at December 31, 2014	833,091	324,882	46,485	53,531	1,930	1,259,919
Additions	—	39,620	1,991	2,749	—	44,360
Disposals	(898)	(390)	—	(509)	(1,930)	(3,727)
As at June 30, 2015	832,193	364,112	48,476	55,771	—	1,300,552
Accumulated depreciation						
As at January 1, 2012	(124,347)	(88,778)	(13,055)	(16,499)	—	(242,679)
Additions	(28,140)	(25,023)	(4,725)	(3,760)	—	(61,648)
Disposals	3,235	5,910	588	1,623	—	11,356
As at December 31, 2012	(149,252)	(107,891)	(17,192)	(18,636)	—	(292,971)
Additions	(16,807)	(32,056)	(5,453)	(4,746)	—	(59,062)
Disposals	10,563	7,085	1,670	2,335	—	21,653
As at December 31, 2013	(155,496)	(132,862)	(20,975)	(21,047)	—	(330,380)
Additions	(23,385)	(44,569)	(6,718)	(6,345)	—	(81,017)
Disposals	9,835	5,158	1,832	191	—	17,016
As at December 31, 2014	(169,046)	(172,273)	(25,861)	(27,201)	—	(394,381)
Additions	(12,029)	(27,145)	(3,636)	(3,754)	—	(46,564)
Disposals	100	760	—	90	—	950
As at June 30, 2015	(180,975)	(198,658)	(29,497)	(30,865)	—	(439,995)
Net book value						
As at December 31, 2012	467,738	105,124	14,652	17,468	1,930	606,912
As at December 31, 2013	559,137	156,052	18,897	22,960	1,930	758,976
As at December 31, 2014	664,045	152,609	20,624	26,330	1,930	865,538
As at June 30, 2015	651,218	165,454	18,979	24,906	—	860,557

The carrying amount of premises with incomplete title deeds as at December 31, 2012, 2013 and 2014, and June 30, 2015 was RMB 26.86 million, RMB 23.42 million, RMB 22.05 million and RMB 20.86 million, respectively. The Bank is still in the progress of application for the outstanding title deeds for the above premises. The directors of the Bank are of the opinion that there would be no significant cost in obtaining the title deeds.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Property and equipment—continued

The net book values of premises at the end of each of the Relevant Periods are analyzed by the remaining terms of the land leases as follows:

	December 31,			June 30,
	2012	2013	2014	2015
Held in Mainland China				
—Long-term leases (over 50 years)	20,784	20,077	19,370	19,017
—Medium term leases (10 – 50 years)	422,017	527,515	639,921	627,547
—Short term leases (less than 10 years)	24,937	11,545	4,754	4,654
Total	467,738	559,137	664,045	651,218

22 Deferred income tax assets

(1) Analyzed by nature

	December 31,						June 30,	
	2012		2013		2014		2015	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets	Deductible / (taxable) temporary differences	Deferred income tax assets / (liabilities)	Deductible / (taxable) temporary differences	Deferred income tax assets / (liabilities)
Provision for impairment losses	639,876	159,969	908,704	227,176	1,195,496	298,874	1,364,840	341,210
Deferred interest income from discounted bills	44,676	11,169	56,408	14,102	63,700	15,925	49,744	12,436
Change in fair value	15,468	3,867	278,032	69,508	(112,500)	(28,125)	(188,372)	(47,093)
Others	203,180	50,795	203,180	50,795	203,180	50,795	52,220	13,055
Total	903,200	225,800	1,446,324	361,581	1,349,876	337,469	1,278,432	319,608

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Deferred income tax assets—continued

(2) *Analyzed by movement*

	Provision for Impairment losses	Deferred interest income from discounted bills	Change in fair value	Others	Total
		Note (i)		Note (ii)	
As at January 1, 2012	122,862	23,666	(22,096)	50,795	175,227
Recognized in profit or loss	37,107	(12,497)	746	—	25,356
Recognized in other comprehensive income	—	—	25,217	—	25,217
As at December 31, 2012	159,969	11,169	3,867	50,795	225,800
Recognized in profit or loss	67,207	2,933	1,637	—	71,777
Recognized in other comprehensive income	—	—	64,004	—	64,004
As at December 31, 2013	227,176	14,102	69,508	50,795	361,581
Recognized in profit or loss	71,698	1,823	(1,425)	—	72,096
Recognized in other comprehensive income	—	—	(96,208)	—	(96,208)
As at December 31, 2014	298,874	15,925	(28,125)	50,795	337,469
Recognized in profit or loss	42,336	(3,489)	(712)	(44,508)	(6,373)
Recognized in other comprehensive income	—	—	(18,256)	6,768	(11,488)
As at June 30, 2015	341,210	12,436	(47,093)	13,055	319,608

Notes:

(i) Pursuant to the requirement issued by the local tax authority, tax obligations arise when the Bank receives interest from discounted bills. The difference between the interest received and the interest income recognized in profit or loss using the effective interest method forms deductible temporary difference.

(ii) Others include supplementary retirement benefits accrued, which are deductible against taxable income when actual payment occurs.

23 Other assets

	Note	December 31, 2012	December 31, 2013	December 31, 2014	June 30, 2015
Prepayment for long-term assets		1,195,722	1,403,821	1,442,906	1,491,363
Interest receivable	23(1)	612,915	708,200	937,265	1,045,209
Long-term deferred expense		84,370	118,025	151,247	146,117
Intangible assets	23(2)	64,030	83,587	114,673	135,681
Land use rights		2,524	21,355	62,192	61,399
Deferred expense		26,911	36,248	40,062	42,436
Precious metals		—	1,319	17,166	16,889
Other receivables		71,212	194,475	223,803	252,861
Sub-total		2,057,684	2,567,030	2,989,314	3,191,955
Less: Provision for impairment losses		—	(526)	(479)	(431)
Total		2,057,684	2,566,504	2,988,835	3,191,524

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

23 Other assets—continued

(1) Interests receivable

	December 31, 2012	December 31, 2013	December 31, 2014	June 30, 2015
Interest receivable arising from:				
—Investments	435,791	506,714	684,236	773,748
—Loans and advances to customers	166,959	171,371	215,214	213,059
—Others	10,165	30,115	37,815	58,402
Total	612,915	708,200	937,265	1,045,209

(2) Intangible assets

	Years ended December 31, 2012	Years ended December 31, 2013	Years ended December 31, 2014	Six months ended June 30, 2015
Cost				
As at January 1	54,019	84,993	124,795	187,937
Additions	32,062	40,877	63,177	42,373
Decrease	(1,088)	(1,075)	(35)	(6,033)
As at December 31 / June 30	84,993	124,795	187,937	224,277
Accumulated amortization				
As at January 1	(8,578)	(20,963)	(41,208)	(73,264)
Additions	(12,819)	(21,320)	(32,091)	(21,365)
Decrease	434	1,075	35	6,033
As at December 31 / June 30	(20,963)	(41,208)	(73,264)	(88,596)
Net value				
As at January 1	45,441	64,030	83,587	114,673
As at December 31 / June 30	64,030	83,587	114,673	135,681

Intangible assets of the Bank mainly represent software.

24 Borrowings from central bank

	December 31, 2012	December 31, 2013	December 31, 2014	June 30, 2015
Borrowings (Note (1))	—	914,535	917,850	916,890
Re-discounted bills	—	109,705	85,826	125,514
Total	—	1,024,240	1,003,676	1,042,404

Note:

(1) The Borrowings are U.S. dollar loans issued by the State Administration of Foreign Exchange.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

25 Deposits from banks and other financial institutions

	December 31, 2012	December 31, 2013	December 31, 2014	June 30, 2015
In Mainland China				
—Banks	2,805,437	12,553,372	14,631,994	11,428,098
—Other financial institutions	11,728	—	5,730,595	8,615,466
Total	2,817,165	12,553,372	20,362,589	20,043,564

26 Placements from banks and other financial institutions

	December 31, 2012	December 31, 2013	December 31, 2014	June 30, 2015
In Mainland China				
—Banks	4,022,225	—	1,125,896	2,487,828
Outside Mainland China				
—Banks	238,849	260,338	253,939	244,504
Total	4,261,074	260,338	1,379,835	2,732,332

27 Financial assets sold under repurchase agreements

(1) Analyzed by type and location of counterparty

	December 31, 2012	December 31, 2013	December 31, 2014	June 30, 2015
In mainland China				
—Banks	10,248,010	10,130,000	9,869,144	8,948,800
—Other financial institutions	—	—	200,000	—
Total	10,248,010	10,130,000	10,069,144	8,948,800

(2) Analyzed by types of collaterals

	December 31, 2012	December 31, 2013	December 31, 2014	June 30, 2015
Debt securities	7,919,650	10,130,000	10,069,144	8,948,800
Discounted bills	2,328,360	—	—	—
Total	10,248,010	10,130,000	10,069,144	8,948,800

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

28 Deposits from customers

	December 31,			June 30,
	2012	2013	2014	2015
Demand deposits				
—Corporate deposits	27,636,997	32,134,775	34,586,278	27,970,083
—Personal deposits	4,543,523	5,278,314	6,552,927	7,860,345
Sub-total	32,180,520	37,413,089	41,139,205	35,830,428
Time deposits				
—Corporate deposits	25,794,167	31,905,200	29,677,837	32,880,695
—Personal deposits	17,415,273	26,666,052	30,704,276	33,073,130
Sub-total	43,209,440	58,571,252	60,382,113	65,953,825
Outward remittance and remittance payables	239,581	282,343	198,668	164,783
Fiscal deposits to be transferred	18,328	17,223	13,674	21,874
Total	75,647,869	96,283,907	101,733,660	101,970,910
Including:				
Pledged deposits	12,320,753	16,688,743	12,434,610	10,708,402

29 Debt securities issued

	December 31,			June 30,
	2012	2013	2014	2015
Debt securities issued (Note (1))	—	4,986,736	4,990,590	7,185,699
Certificates of interbank deposit issued (Note (2))	—	—	3,344,440	10,322,491
Total	—	4,986,736	8,335,030	17,508,190

Notes:

(1) Financial debts with fixed interest rates and with total nominal amount of RMB 5 billion were issued in 2013 by the Bank. Financial debts with fixed interest rates and with total nominal amount of RMB 2.2 billion were issued in 2015 by the Bank. The details are as follows:

(i) Three-year debts were issued with an interest rate of 4.6% per annum and with nominal amount of RMB 2.1 billion in March 2013. The debts will mature on March 5, 2016 with annual interest payments. As at December 31, 2013 and 2014 and June 30, 2015, the fair value of the debts is RMB 2.026 billion, RMB 2.094 billion, RMB 2.11 billion respectively.

(ii) Five-year debts were issued with an interest rate of 4.8% per annum and with nominal amount of RMB 2.9 billion in March 2013. The debts will mature on March 5, 2018 with annual interest payments. As at December 31, 2013 and 2014 and June 30, 2015, the fair value of the debts is RMB 2.731 billion, RMB 2.885 billion, RMB 2.925 billion respectively.

(iii) Ten-year subordinated debts were issued with an interest rate of 5.59% per annum and with nominal amount of RMB 2.2 billion in March 2015. The debts will mature on March 5, 2025 with annual interest payments. The Bank has an option to redeem the debts at the end of the fifth year at the nominal amount. As at June 30, 2015, the fair value of the debts is RMB 2.197 billion.

(2) In 2014, the Bank issued a number of certificates of interbank deposit with total nominal amount of RMB 5.1 billion and duration between 3-6 months. As at December 31, 2014, the outstanding balance of certificates of interbank deposit issued by the Bank is RMB 3.344 billion, and the fair value is RMB 3.322 billion.

For the six months ended June 30, 2015, the Bank issued a number of certificates of interbank deposit with total nominal amount of RMB 14.32 billion and duration of 3 months to 1 year. As at June 30, 2015, the outstanding balance of certificates of interbank deposit issued by the Bank is RMB 10.322 billion, and the fair value is RMB 10.151 billion.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

30 Other liabilities

	Note	December 31, 2012	December 31, 2013	December 31, 2014	June 30, 2015
Interest payable	30(1)	548,376	1,431,261	1,966,274	1,956,543
Employee benefits payable	30(2)	474,069	523,047	727,393	618,464
Taxes payable	30(3)	47,117	59,950	62,514	73,471
Payable raising from fiduciary activities		14,568	12,928	140,003	266,135
Dividend payable		14,162	14,493	14,267	15,366
Settlement payable		846	—	400,000	1,705,206
Others		104,603	79,764	97,964	248,650
Total		1,203,741	2,121,443	3,408,415	4,883,835

(1) Interest payable

	December 31, 2012	December 31, 2013	December 31, 2014	June 30, 2015
Interest payable arising from:				
—Deposits from customers	503,436	1,048,716	1,476,910	1,586,261
—Deposits and placements from banks and other financial institutions	32,635	172,888	252,356	254,332
—Debt securities issued	—	195,100	195,100	115,672
—Financial assets sold under repurchase agreements	12,305	14,557	41,908	278
Total	548,376	1,431,261	1,966,274	1,956,543

(2) Employee benefits payable

	December 31, 2012	December 31, 2013	December 31, 2014	June 30, 2015
Salary, bonuses and allowances payable	248,724	297,814	493,828	527,091
Labor union expense payable	8,902	8,953	14,180	15,075
Employee education expense payable	6,967	6,804	9,909	17,782
Welfare payable	4,545	4,545	4,545	4,545
Others (Note (i))	204,931	204,931	204,931	53,971
Total	474,069	523,047	727,393	618,464

Note:

(i) Others include the Bank's supplementary retirement benefits for its qualified employees. The obligations are accounted for in accordance with the accounting policies disclosed in Note 2(11) (ii). The Bank amended its supplementary retirement benefits plan in 2015. Please refer to Note 8 (1) for details.

The Bank's obligations in respect of the supplementary retirement benefits as at the reporting date were based on the projected unit credit actuarial cost method.

(3) Taxes payable

Taxes payable mainly includes business tax and surcharges.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

31 Share capital

Authorized and issued share capital

	December 31,			June 30,
	2012	2013	2014	2015
Number of shares authorized, issued and fully paid at nominal value (in thousands)	2,555,977	2,555,977	2,555,977	3,111,533

In February 2015, the Bank issued 556 million ordinary shares with a nominal value of RMB 1 at RMB 3.60 per share. The premium arising from the issuance of new shares amounting to RMB 1.444 billion was recorded in capital reserve.

32 Reserves

(1) Capital reserve

Capital reserve mainly includes share premium arising from the issuance of new shares at prices in excess of nominal value.

(2) Surplus reserve

The surplus reserve at the end of each of the Relevant Periods represented statutory surplus reserve fund and discretionary surplus reserve fund.

Pursuant to the Company Law of the PRC and the Article of Association, the Bank is required to appropriate 10% of its net profit as determined under the China Accounting Standards after making good prior year's accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

(3) General reserve

Prior to July 1, 2012, pursuant to relevant regulations issued by the Ministry of Finance (the "MOF"), the Bank is required to set aside a general reserve through its profit appropriation to cover potential losses. In principle, the general reserve balance should not be lower than 1% of the ending balance of its gross risk-bearing assets.

From July 1, 2012, pursuant to the "Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No.20)" issued by the MOF on March 2012, the Bank is required to set aside a general reserve through profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets within five years.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

32 Reserves—continued

(4) Investment revaluation reserve

	Years ended December 31,			Six months ended June 30,
	2012	2013	2014	2015
As at January 1	66,585	(9,067)	(203,547)	85,077
Change in fair value recognized in other comprehensive income	(96,509)	(257,822)	395,598	108,933
Transfer to profit or loss upon disposal	(4,360)	(662)	(10,766)	(35,909)
Less: income tax	25,217	64,004	(96,208)	(18,256)
As at December 31 / June 30	(9,067)	(203,547)	85,077	139,845

(5) Other reserve

Other reserve includes actuarial gains or losses, net of tax, from remeasuring the net defined benefit liability.

33 Profit distribution

(1) Profit distribution other than cash dividends

	Years ended December 31,			Six months ended June 30,
	2012	2013	2014	2015
Appropriations to				
—Statutory surplus reserve fund	92,002	114,191	149,535	—
—General reserve	309,726	466,270	552,565	—
Total	401,728	580,461	702,100	—

(2) Dividend distribution

	Years ended December 31,			Six months ended June 30,
	2012	2013	2014	2015
	(Note (i))			
Dividend declared	365,946	178,917	204,478	777,883
Dividend proposed	178,917	204,478	777,883	—
	(RMB 0.07 per share)	(RMB 0.08 per share)	(RMB 0.25 per share)	

Note:

(i) The dividend declared in 2012 includes dividend for 2010 of RMB 238.15 million (RMB 0.12 per share) and dividend for 2011 of RMB 127.80 million (RMB 0.05 per share).

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

34 Notes to cash flow statements

Cash and cash equivalents comprise:

	December 31, 2012	December 31, 2013	December 31, 2014	June 30, 2015
Cash on hand	515,496	674,582	710,364	802,212
Surplus deposit reserves with central bank	6,256,603	2,902,276	3,174,207	3,333,240
Original maturity within three months:				
—Deposits with banks and other financial institutions	3,086,036	1,746,402	1,518,827	2,392,289
—Financial assets held under resale agreements	1,780,839	100,000	820,000	—
—Placements with banks and other financial institutions	562,650	700,000	795,470	256,792
—Debts investments	—	—	300,000	—
Total	12,201,624	6,123,260	7,318,868	6,784,533

35 Related party relationships and transactions

(1) Relationship of related parties

(a) Major shareholders

Major shareholders include shareholders of the Bank with 5% or above ownership.

Share percentage in the Bank:

	December 31, 2012	December 31, 2013	December 31, 2014	June 30, 2015
Intesa Sanpaolo S.p.A.	20.00%	20.00%	20.00%	20.00%
Qingdao Conson Industrial Co., Ltd.	17.13%	17.13%	17.13%	17.13%
Qingdao Haier Investment and Development Co., Ltd.	16.03%	16.03%	16.03%	13.17%
Qingdao Haier Air-Conditioning Electronic Co., Ltd.	8.56%	8.56%	8.56%	7.03%

(b) Other related parties

Other related parties can be individuals or enterprises, which include: members of the Board of Directors, the Board of Supervisors and senior management and close family members of such individuals; entities (and their subsidiaries) controlled or jointly controlled by members of the Board of Directors, the Board of Supervisors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of the Bank as set out in Note 35(1)(a) or their controlling shareholders.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

35 Related party relationships and transactions—continued

(2) Related party transactions and balances

Related party transactions of the Bank mainly refer to loans, deposits and financial investments, which are entered into in the normal course and terms of business, with consistent pricing policies as in transactions with independent third parties.

	December 31,			June 30,
	2012	2013	2014	2015
Balances at the end of the year / period:				
Loans and advances to customers	460,594	291,390	636,070	13,909
Financial investments:				
Investment classified as receivables	—	200,000	200,000	200,000
Available-for-sale financial assets	30,126	28,554	29,992	—
Deposits with banks and other financial institutions	6,018	4,891	6,628	4,755
Interest receivable	1,019	1,083	2,521	404
Deposits from customers	2,127,414	1,127,291	527,305	126,082
Placements from banks and other financial institutions	—	—	91,785	—
Interest payable	804	471	2,013	1,000

	Years ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
				(unaudited)	
Transactions during the year / period:					
Interest income	33,265	31,158	31,486	16,221	22,635
Interest expense	17,833	10,350	2,958	1,135	879

(3) Remuneration of key management personnel

The Bank's key management personnel includes people having authority and responsibility, directly or indirectly, to plan, command and control the activities of the Bank, including directors, supervisors, and senior management at bank level.

	Years ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
				(unaudited)	
Remuneration of key management personnel	13,344	15,558	15,696	7,195	7,253

36 Segment reporting

Segment reporting is disclosed in accordance with the accounting policy set out in Note 2(19).

Segment assets and liabilities, and segment income, expense and operating results are measured in accordance with the Bank's accounting policies. Internal charges and transfer pricing of transactions between segments are determined for management purpose and have been reflected in the performance of each segment. Interest income and expenses earned from third parties are referred to as "External net interest income/expense". Net interest income and expenses arising from internal charges and transfer pricing adjustments are referred to as "Internal net interest income/expense".

B NOTES TO THE FINANCIAL INFORMATION—continued
(Expressed in thousands of Renminbi, unless otherwise stated)

36 Segment reporting—continued

Segment income, expense, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets, and liabilities are determined before intra-Bank balances, and intra-Bank transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total payment during the period to acquire property and equipment, intangible assets and other long-term assets.

The Bank defines its reporting segments based on the following for management purpose:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, deposit taking activities, agency services, remittance and settlement services.

Retail banking

This segment represents the provision of a range of financial products and services to individual customers. The products and services comprise personal loans and deposit services.

Financial market business

This segment covers the Bank's financial market operations. The financial market business enters into inter-bank money market transactions, repurchases transactions, investments in debt securities, and non-standardized debt investments.

Un-allocated items and others

This segment contains head office assets, liabilities, income and expenses that are not directly attributable to a segment.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

36 Segment reporting—continued

	Year ended December 31, 2012				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
External net interest income	1,491,827	229,583	885,961	—	2,607,371
Internal net interest income / (expense)	306,724	208,146	(514,870)	—	—
Net interest income	1,798,551	437,729	371,091	—	2,607,371
Net fee and commission income	209,130	15,305	11,063	—	235,498
Net trading gains	—	—	20,701	—	20,701
Net gains arising from investments	—	—	4,710	—	4,710
Other operating income	360	285	31	18,004	18,680
Operating income	2,008,041	453,319	407,596	18,004	2,886,960
Operating expenses	(925,958)	(311,494)	(142,911)	—	(1,380,363)
Impairment losses	(246,436)	(37,096)	—	—	(283,532)
Profit before taxation	835,647	104,729	264,685	18,004	1,223,065
Other segment information					
—Depreciation and amortization	(80,745)	(64,241)	(6,995)	—	(151,981)
—Capital expenditure	662,334	526,957	57,378	—	1,246,669

	December 31, 2012				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
Segment assets	49,387,560	17,303,981	34,740,883	—	101,432,424
Deferred tax assets					225,800
Total assets					101,658,224
Segment liabilities / Total liabilities	54,172,328	22,647,209	17,402,052	—	94,221,589
Credit commitments	23,902,734	108,942	—	—	24,011,676

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

36 Segment reporting—continued

	Year ended December 31, 2013				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
External net interest income	1,782,291	142,690	1,162,803	—	3,087,784
Internal net interest income / (expense)	246,621	456,771	(703,392)	—	—
Net interest income	2,028,912	599,461	459,411	—	3,087,784
Net fee and commission income	240,126	60,187	125,017	—	425,330
Net trading gains	—	—	7,405	—	7,405
Net gains arising from investments	—	—	1,062	—	1,062
Other operating income	805	649	38	33,219	34,711
Operating income	2,269,843	660,297	592,933	33,219	3,556,292
Operating expenses	(1,066,584)	(423,885)	(198,475)	—	(1,688,944)
Impairment losses	(320,281)	(28,421)	—	—	(348,702)
Profit before taxation	882,978	207,991	394,458	33,219	1,518,646
Other segment information					
—Depreciation and amortization	(101,903)	(82,295)	(4,845)	—	(189,043)
—Capital expenditure	298,810	241,312	14,207	—	554,329

	December 31, 2013				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
Segment assets	56,831,706	20,866,482	57,629,602	—	135,327,790
Deferred tax assets					361,581
Total assets					135,689,371
Segment liabilities / Total liabilities	64,975,311	33,150,177	29,358,731	—	127,484,219
Credit commitments	31,363,560	160,674	—	—	31,524,234

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

36 Segment reporting—continued

	Year ended December 31, 2014				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
External net interest income	1,924,332	89,894	1,582,110	—	3,596,336
Internal net interest income / (expense)	186,768	742,412	(929,180)	—	—
Net interest income	2,111,100	832,306	652,930	—	3,596,336
Net fee and commission income	349,268	51,358	288,125	—	688,751
Net trading gains	—	—	33,630	—	33,630
Net gains arising from investments	—	—	11,216	—	11,216
Other operating (expenses) / income	(659)	(713)	(30)	36,521	35,119
Operating income	2,459,709	882,951	985,871	36,521	4,365,052
Operating expenses	(1,121,054)	(561,500)	(312,699)	—	(1,995,253)
Impairment losses	(332,117)	(29,161)	(50,000)	—	(411,278)
Profit before taxation	1,006,538	292,290	623,172	36,521	1,958,521
Other segment information					
—Depreciation and amortization	(113,243)	(122,477)	(5,160)	—	(240,880)
—Capital expenditure	194,634	210,504	8,868	—	414,006

	December 31, 2014				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
Segment assets	62,591,707	25,336,430	67,900,335	—	155,828,472
Deferred tax assets					337,469
Total assets					156,165,941
Segment liabilities / Total liabilities	65,416,984	39,287,066	41,677,241	—	146,381,291
Credit commitments	25,422,952	284,469	—	—	25,707,421

	Six months ended June 30, 2014 (unaudited)				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
External net interest income	1,001,069	54,714	717,561	—	1,773,344
Internal net interest income / (expense)	76,300	356,668	(432,968)	—	—
Net interest income	1,077,369	411,382	284,593	—	1,773,344
Net fee and commission income	226,961	23,284	166,394	—	416,639
Net trading gains	—	—	20,365	—	20,365
Net gains arising from investments	—	—	7,128	—	7,128
Other operating income/ (expenses)	398	366	23	(1,309)	(522)
Operating income	1,304,728	435,032	478,503	(1,309)	2,216,954
Operating expenses	(493,695)	(219,473)	(125,731)	—	(838,899)
Impairment losses	(167,967)	(12,989)	—	—	(180,956)
Profit before tax	643,066	202,570	352,772	(1,309)	1,197,099
Other segment information					
—Depreciation and amortization	(57,861)	(53,280)	(3,324)	—	(114,465)
—Capital expenditure	131,191	120,804	7,537	—	259,532

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

36 Segment reporting—continued

	Six months ended June 30, 2015				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
External net interest income	1,115,976	28,447	806,052	—	1,950,475
Internal net interest income / (expense)	33,273	385,346	(418,619)	—	—
Net interest income	1,149,249	413,793	387,433	—	1,950,475
Net fee and commission income	158,161	87,427	147,679	—	393,267
Net trading gains	—	—	11,779	—	11,779
Net gains arising from investments	—	—	35,909	—	35,909
Other operating income	36	38	3	7,691	7,768
Operating income	1,307,446	501,258	582,803	7,691	2,399,198
Operating expenses	(418,347)	(203,000)	(128,991)	—	(750,338)
Impairment losses	(195,481)	(25,131)	(20,000)	—	(240,612)
Profit before tax	693,618	273,127	433,812	7,691	1,408,248
Other segment information					
—Depreciation and amortization	(66,175)	(69,298)	(4,454)	—	(139,927)
—Capital expenditure	72,200	75,607	4,860	—	152,667

	June 30, 2015				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
Segment assets	65,066,184	27,746,277	76,277,250	—	169,089,711
Deferred tax assets					319,608
Total assets					169,409,319
Segment liabilities / Total liabilities	62,637,528	43,642,067	51,014,753	—	157,294,348
Credit commitments	25,584,825	319,913	—	—	25,904,738

37 Risk management

The Bank has exposure to the following risks from its use of financial instruments in the normal course of the Bank's operations, which mainly include: credit risk, interest rate risk, foreign currency risk, liquidity risk and operational risk. This note presents information about the Bank's exposure to each of the above risks and their sources, as well as the Bank's risk management objectives, policies and processes for measuring and managing risks.

The Bank aims to seek the appropriate balance between the risks and benefits from its use of financial instruments and to mitigate the adverse effects that the risks of financial instruments have on the Bank's financial performance. Based on such objectives, the Bank has established policies and procedures to identify and analyze these risks, to set appropriate risk limits and controls, and to constantly monitor the risks and limits by means of reliable and up-to-date management information systems.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Risk management—continued

(1) Credit risk

Credit risk represents the financial loss that arises from the failure of a debtor or counterparty to discharge its contractual obligations or commitments to the Bank. This category includes loan portfolio, investment portfolio, guarantees and various other on- and off-balance sheet credit risk exposures.

Credit business

The Bank's risk management procedures with respect to credit business include pre-loan investigation, credit review and approval, loan disbursement and post-disbursement management. In respect of pre-loan investigation, customer managers assess the credit risk of the borrower and the proceeds from the loan and form assessment report; in respect of credit review, all credit businesses are approved by authorized approvers; in respect of post-disbursement management, any adverse events that may significantly affect a borrower's repayment ability are reported immediately and measures are implemented to prevent and control risks. To reduce the risk, the Bank would require the borrower to provide collaterals or other credit enhancements in appropriate circumstances.

The Bank adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss is assessed collectively or individually as appropriate.

The core definitions of the five categories of loans and advances are set out below:

Normal: Borrowers can honor the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.

Special mention: Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.

Substandard: Borrowers' abilities to service their loans are in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.

Doubtful: Borrowers cannot repay principal and interest in full and significant losses will need to be recognized even when collateral or guarantees are invoked.

Loss: Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

The Bank applies a series of criteria in determining the classification of loans. The loan classification criteria focuses on a number of factors, including (i) the borrower's ability to repay the loan; (ii) the borrower's repayment history; (iii) the borrower's willingness to repay; (iv) the net realizable value of any collateral; and (v) the prospect for the support from any financially responsible guarantor. The Bank also takes into account the length of time for which payments of principal and interest on a loan are overdue.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Risk management—continued

(1) Credit risk—continued

Financial market business

The Bank sets credit limits for financial market operations based on the credit risk inherent in the products and counterparties. The Bank uses information system to closely monitor the credit exposure on a real-time basis, and regularly reviews its credit limit policies and makes adjustments as appropriate.

Besides debt securities and other money market products, the Bank invests in wealth management products issued by financial institutions. Before making the investment decision, the Bank will assess the ability of the issuers to manage the investments and the credit risk of the underlying assets.

In addition, the Bank also invests in trust products and asset management products designed and sold by trust companies and securities companies. Before making the investment decision, the Bank will assess the ability of the issuers to manage the investments and the credit risk of the underlying assets.

The Bank analyses and monitors the credit risk of the investments by regular review of the financial position and operating results of the underlying borrowers who use the funds under the trust plans or asset management schemes.

The maximum exposure to credit risk is represented by the carrying amount of each type of financial assets and the contract amount of credit commitments. In addition to the Bank's credit commitments disclosed in Note39 (1), the Bank did not provide any other guarantee that might expose the Bank to credit risk. The maximum exposure to credit risk in respect of those off-balance sheet items as at the end of each of the Relevant Periods is disclosed in Note 39(1).

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Risk management—continued

(1) Credit risk—continued

The Bank's loans and advances to customers, deposits and placements balances with banks and other financial institutions ("Balances with banks and other financial institutions"), financial assets held under resale agreements and investments are listed by credit quality as follows:

	December 31, 2012			
	Loans and advances to customers	Balances with banks and other financial institutions	Financial assets held under resale agreements	Investments
				Note (ii)
Impaired (Note (i))				
Individually assessed				
Gross balance	288,976	—	—	—
Provision for impairment losses	(125,539)	—	—	—
Net Balance	163,437	—	—	—
Collectively assessed				
Gross balance	59,347	—	—	—
Provision for impairment losses	(30,654)	—	—	—
Net Balance	28,693	—	—	—
Overdue but not impaired (Note (i))				
Within 3 months (inclusive)	42,906	—	—	—
Between 3 months and 1 year (inclusive)	15,534	—	—	—
Over 1 year	40,000	—	—	—
Gross balance	98,440	—	—	—
Provision for impairment losses	(13,934)	—	—	—
Net Balance	84,506	—	—	—
Neither overdue nor impaired				
Gross balance	45,276,165	4,648,686	5,857,213	23,671,349
Provision for impairment losses	(1,057,204)	—	—	—
Net Balance	44,218,961	4,648,686	5,857,213	23,671,349
Book value	44,495,597	4,648,686	5,857,213	23,671,349

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Risk management—continued

(1) Credit risk—continued

	December 31, 2013			
	Loans and advances to customers	Balances with banks and other financial institutions	Financial assets held under resale agreements	Investments
				Note (ii)
Impaired (Note (i))				
Individually assessed				
Gross balance	300,795	—	—	—
Provision for impairment losses	(125,355)	—	—	—
Net Balance	175,440	—	—	—
Collectively assessed				
Gross balance	116,531	—	—	—
Provision for impairment losses	(40,022)	—	—	—
Net Balance	76,509	—	—	—
Overdue but not impaired (Note (i))				
Within 3 months (inclusive)	67,046	—	—	—
Between 3 months and 1 year (inclusive)	21,660	—	—	—
Over 1 year	—	—	—	—
Gross balance	88,706	—	—	—
Provision for impairment losses	(5,011)	—	—	—
Net Balance	83,695	—	—	—
Neither overdue nor impaired				
Gross balance	55,124,155	3,180,808	8,207,883	45,613,787
Provision for impairment losses	(1,353,874)	—	—	—
Net Balance	53,770,281	3,180,808	8,207,883	45,613,787
Book value	54,105,925	3,180,808	8,207,883	45,613,787

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Risk management—continued

(1) Credit risk—continued

	December 31, 2014			
	Loans and advances to customers	Balances with banks and other financial institutions	Financial assets held under resale agreements	Investments
				Note (ii)
Impaired (Note (i))				
Individually assessed				
Gross balance	546,505	—	—	—
Provision for impairment losses	(275,140)	—	—	—
Net Balance	271,365	—	—	—
Collectively assessed				
Gross balance	171,515	—	—	—
Provision for impairment losses	(62,842)	—	—	—
Net Balance	108,673	—	—	—
Overdue but not impaired (Note (i))				
Within 3 months (inclusive)	647,445	—	—	—
Between 3 months and 1 year (inclusive)	64,922	—	—	—
Over 1 year	—	—	—	—
Gross balance	712,367	—	—	—
Provision for impairment losses	(60,759)	—	—	—
Net Balance	651,608	—	—	—
Neither overdue nor impaired				
Gross balance	61,557,842	3,175,318	2,697,628	61,269,971
Provision for impairment losses	(1,341,147)	—	—	(50,000)
Net Balance	60,216,695	3,175,318	2,697,628	61,219,971
Book value	61,248,341	3,175,318	2,697,628	61,219,971

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Risk management—continued

(1) Credit risk—continued

	June 30, 2015			
	Loans and advances to customers	Balances with banks and other financial institutions	Financial assets held under resale agreements	Investments
				Note (ii)
Impaired (Note (i))				
Individually assessed				
Gross balance	604,810	—	—	—
Provision for impairment losses	(259,999)	—	—	—
Net Balance	344,811	—	—	—
Collectively assessed				
Gross balance	229,252	—	—	—
Provision for impairment losses	(118,234)	—	—	—
Net Balance	111,018	—	—	—
Overdue but not impaired (Note (i))				
Within 3 months (inclusive)	1,780,027	—	—	—
Between 3 months and 1 year (inclusive)	124,482	—	—	—
Over 1 year	—	—	—	—
Gross balance	1,904,509	—	—	—
Provision for impairment losses	(170,620)	—	—	—
Net Balance	1,733,889	—	—	—
Neither overdue nor impaired				
Gross balance	67,220,276	4,369,349	1,015,501	70,011,826
Provision for impairment losses	(1,273,843)	—	—	(70,000)
Net Balance	65,946,433	4,369,349	1,015,501	69,941,826
Book value	68,136,151	4,369,349	1,015,501	69,941,826

Notes:

(i) As at December 31, 2012, 2013 and 2014, and June 30, 2015, the principal amount of the Bank's impaired loans and advances to customers subject to individual assessment is RMB 289 million, RMB 300 million, RMB 547 million, and RMB 605 million, respectively. The fair value of collaterals held against these loans and advances is RMB 80 million, RMB 82 million, RMB 134 million and RMB 186 million, respectively.

As at December 31, 2012, 2013 and 2014, and June 30, 2015, the principal amount of the Bank's loans and advances to customers overdue but not impaired and subject to individual assessment is RMB 70 million, RMB 54 million, RMB 630 million and RMB1,653 million, respectively. The fair value of collaterals held against these loans and advances is RMB 153 million, RMB 73 million, RMB 328 million and RMB1,701 million, respectively.

The fair value of collaterals was estimated by management based on the latest available external valuations adjusted by taking into account the current realization experience as well as market situation.

(ii) Investments include financial assets at fair value through the profit or loss, available-for-sale financial assets, held-to-maturity investments and non-equity investments in investment classified as receivables.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Risk management—continued

(2) Market risk

Market risk is the risk of loss, in respect of the Bank's activities, arising from adverse movements in market rates including interest rates, exchange rates, commodity prices, stock prices and other prices.

The Bank is exposed to market risk mainly in its financial market operations. The Bank has constructed a market risk management system that formulates procedures to identify, measure, supervise and control market risks. This system aims to limit market risk to an acceptable level through examining and approving new products and quota management.

The Bank employed sensitivity analysis, interest repricing gap analysis and foreign currency gap analysis to measure and monitor market risks. The Bank classifies the transactions as banking book and trading book transactions, and applies different approaches based on the nature and characteristic of these books to monitor the risks.

Interest rate risk and currency risk are major market risks that confront the Bank.

(a) Interest rate risk

The Bank's interest rate exposures mainly comprise the mismatching of assets and liabilities' repricing dates, as well as the effect of interest rate volatility on trading positions.

The Bank primarily uses gap analysis to assess and monitor its repricing risk and adjusts the ratio of floating and fixed rate accounts, the loan repricing cycle, as well as optimizes the term structure of its deposits according to the gap status.

The Bank implements various methods, such as sensitivity analysis and scenario simulation to measure and monitor interest risk exposure; risk exposure limits, such as interest rate sensitivity and risk exposure are set regularly, and the relevant implementation of these limits are also supervised, managed and reported on a regular basis.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Risk management—continued

(2) Market risk—continued

(a) Interest rate risk—continued

The following tables indicate the assets and liabilities analysis as at the end of each of the Relevant Periods by the expected next repricing dates or by maturity dates, depending on which is earlier:

	December 31, 2012					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with central bank	20,071,733	530,845	19,540,888	—	—	—
Deposits with banks and other financial institutions	3,586,036	—	3,086,036	500,000	—	—
Placements with banks and other financial institutions	1,062,650	—	562,650	500,000	—	—
Financial assets held under resale agreements	5,857,213	—	4,079,688	1,777,525	—	—
Loans and advances to customers (Note (i))	44,495,597	—	20,101,808	24,393,789	—	—
Investments (Note (ii))	23,694,599	23,250	3,344,981	1,441,110	9,259,476	9,625,782
Others	2,890,396	2,890,396	—	—	—	—
Total assets	101,658,224	3,444,491	50,716,051	28,612,424	9,259,476	9,625,782
Liabilities						
Deposits from banks and other financial institutions	2,817,165	—	1,737,165	1,000,000	—	80,000
Placements from banks and other financial institutions	4,261,074	—	4,161,074	100,000	—	—
Financial assets sold under repurchase agreements	10,248,010	—	10,248,010	—	—	—
Deposits from customers	75,647,869	239,581	54,068,584	13,695,968	7,561,052	82,684
Others	1,247,471	1,247,471	—	—	—	—
Total liabilities	94,221,589	1,487,052	70,214,833	14,795,968	7,561,052	162,684
Asset-liability gap	7,436,635	1,957,439	(19,498,782)	13,816,456	1,698,424	9,463,098

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Risk management—continued

(2) Market risk—continued

(a) Interest rate risk—continued

	December 31, 2013					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with central bank	20,870,657	702,962	20,167,695	—	—	—
Deposits with banks and other financial institutions	2,480,808	—	1,630,808	850,000	—	—
Placements with banks and other financial institutions	700,000	—	700,000	—	—	—
Financial assets held under resale agreements	8,207,883	—	7,070,382	137,501	1,000,000	—
Loans and advances to customers (Note (i))	54,105,925	—	36,117,607	17,988,318	—	—
Investments (Note (ii))	45,637,037	23,250	6,931,129	9,401,649	21,249,613	8,031,396
Others	3,687,061	3,687,061	—	—	—	—
Total assets	135,689,371	4,413,273	72,617,621	28,377,468	22,249,613	8,031,396
Liabilities						
Borrowings from central bank	1,024,240	—	109,791	914,449	—	—
Deposits from banks and other financial institutions	12,553,372	—	5,205,232	7,348,140	—	—
Placements from banks and other financial institutions	260,338	—	201,198	59,140	—	—
Financial assets sold under repurchase agreements	10,130,000	—	10,130,000	—	—	—
Deposits from customers	96,283,907	282,344	64,982,797	21,421,859	9,531,360	65,547
Debt securities issued	4,986,736	—	—	—	4,986,736	—
Others	2,245,626	2,245,626	—	—	—	—
Total liabilities	127,484,219	2,527,970	80,629,018	29,743,588	14,518,096	65,547
Asset-liability gap	8,205,152	1,885,303	(8,011,397)	(1,366,120)	7,731,517	7,965,849

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Risk management—continued

(2) Market risk—continued

(a) Interest rate risk—continued

	December 31, 2014					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with central bank	23,609,591	746,366	22,863,225	—	—	—
Deposits with banks and other financial institutions	2,018,827	—	1,518,827	—	500,000	—
Placements with banks and other financial institutions	1,156,491	—	1,125,896	30,595	—	—
Financial assets held under resale agreements	2,697,628	—	2,055,207	642,421	—	—
Loans and advances to customers (Note (i))	61,248,341	—	36,396,729	23,952,881	898,731	—
Investments (Note (ii))	61,243,221	23,250	5,441,151	17,381,569	28,775,125	9,622,126
Others	4,191,842	4,191,842	—	—	—	—
Total assets	156,165,941	4,961,458	69,401,035	42,007,466	30,173,856	9,622,126
Liabilities						
Borrowings from central bank	1,003,676	—	80,000	923,676	—	—
Deposits from banks and other financial institutions	20,362,589	—	10,897,634	8,864,955	600,000	—
Placements from banks and other financial institutions	1,379,835	—	1,379,835	—	—	—
Financial assets sold under repurchase agreements	10,069,144	—	10,069,144	—	—	—
Deposits from customers	101,733,660	198,668	66,158,539	23,209,778	12,045,153	121,522
Debt securities issued	8,335,030	—	1,387,208	1,957,232	4,990,590	—
Others	3,497,357	3,497,357	—	—	—	—
Total liabilities	146,381,291	3,696,025	89,972,360	34,955,641	17,635,743	121,522
Asset-liability gap	9,784,650	1,265,433	(20,571,325)	7,051,825	12,538,113	9,500,604

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Risk management—continued

(2) Market risk—continued

(a) Interest rate risk—continued

	June 30, 2015					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with central bank	21,551,553	838,500	20,713,053	—	—	—
Deposits with banks and other financial institutions	3,012,289	—	2,392,289	620,000	—	—
Placements with banks and other financial institutions	1,357,060	—	1,357,060	—	—	—
Financial assets held under resale agreements	1,015,501	—	1,015,501	—	—	—
Loans and advances to customers (Note (i))	68,136,151	—	24,198,627	42,658,164	1,277,973	1,387
Investments (Note (ii))	69,965,076	23,250	8,486,911	15,877,671	35,734,385	9,842,859
Others	4,371,689	4,371,689	—	—	—	—
Total assets	169,409,319	5,233,439	58,163,441	59,155,835	37,012,358	9,844,246
Liabilities						
Borrowings from central bank	1,042,404	—	118,100	924,304	—	—
Deposits from banks and other financial institutions	20,043,564	—	8,804,404	9,439,160	1,800,000	—
Placements from banks and other financial institutions	2,732,332	—	2,610,080	122,252	—	—
Financial assets sold under repurchase agreements	8,948,800	—	8,948,800	—	—	—
Deposits from customers	101,970,910	164,783	62,961,410	24,129,949	14,573,257	141,511
Debt securities issued	17,508,190	—	5,800,909	6,619,632	2,894,315	2,193,334
Others	5,048,148	5,048,148	—	—	—	—
Total liabilities	157,294,348	5,212,931	89,243,703	41,235,297	19,267,572	2,334,845
Asset-liability gap	12,114,971	20,508	(31,080,262)	17,920,538	17,744,786	7,509,401

Notes:

(i) For the Bank's loans and advances to customers, the category "Less than three months" as at December 31, 2012, 2013 and 2014, and June 30, 2015 includes overdue amounts (net of provision for impairment losses) of RMB207 million, RMB258 million, RMB935 million and RMB2,190 million, respectively.

(ii) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investment classified as receivables.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Risk management—continued

(2) Market risk—continued

(a) Interest rate risk—continued

The Bank uses sensitivity analysis to measure the potential effect of changes in interest rates on the Bank's net interest income. The following table sets forth the results of the Bank's interest rate sensitivity analysis at the end of each of the Relevant Period.

	December 31,			June 30,
	2012	2013	2014	2015
	Increase/ (Decrease)	Increase/ (Decrease)	Increase/ (Decrease)	Increase/ (Decrease)
Increase/(Decrease) in annualized net interest income				
Interest rates increase by 100 bps	(91,364)	(90,360)	(152,825)	(176,399)
Interest rates decrease by 100 bps	91,364	90,360	152,825	176,399

This sensitivity analysis is based on a static interest rate risk profile of the Bank's assets and liabilities and certain simplified assumptions. The analysis measures only the impact of changes in the interest rates within one year, showing how annualized interest income would have been affected by repricing of the Bank's assets and liabilities within the one-year period. The analysis is based on the following assumptions:

(i) All assets and liabilities that reprice or mature within three months and after three months but within one year reprice or mature at the beginning of the respective periods (i.e., all the assets and liabilities that reprice or mature within three months reprice or mature immediately, and all the assets and liabilities that reprice or mature after three months but within one year reprice or mature immediately after three months);

(ii) There is a parallel shift in the yield curve and in interest rates, and;

(iii) There are no other changes to the portfolio, all positions will be retained and rolled over upon maturity.

The analysis does not take into account the effect of risk management measures taken by management. Due to the assumptions adopted, actual changes in the Bank's net interest income resulting from increases or decreases in interest rates may differ from the results of this sensitivity analysis.

(b) Currency risk

The Bank's currency risk mainly arises from foreign currency loans and deposits from customers. The Bank manages currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Risk management—continued

(2) Market risk—continued

(b) Currency risk—continued

The Bank's currency exposures as at the end of each of the Relevant Periods are as follows:

	December 31, 2012			
	RMB	USD	Others	Total
		(RMB Equivalent)	(RMB Equivalent)	(RMB Equivalent)
Assets				
Cash and deposits with central bank	20,056,198	14,871	664	20,071,733
Deposits with banks and other financial institutions	3,367,121	157,874	61,041	3,586,036
Placements with banks and other financial institutions	685,520	377,130	—	1,062,650
Financial assets held under resale agreements	5,857,213	—	—	5,857,213
Loans and advances to customers	44,248,056	247,541	—	44,495,597
Investments (Note (i))	23,694,599	—	—	23,694,599
Others	2,888,149	1,892	355	2,890,396
Total assets	100,796,856	799,308	62,060	101,658,224
Liabilities				
Deposits from banks and other financial institutions	2,817,165	—	—	2,817,165
Placements from banks and other financial institutions	3,959,370	301,704	—	4,261,074
Financial assets sold under repurchase agreements	10,248,010	—	—	10,248,010
Deposits from customers	75,287,323	306,886	53,660	75,647,869
Others	1,247,387	83	1	1,247,471
Total liabilities	93,559,255	608,673	53,661	94,221,589
Net position	7,237,601	190,635	8,399	7,436,635
Off-balance sheet credit commitments	23,374,257	608,732	28,687	24,011,676

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Risk management—continued

(2) Market risk—continued

(b) Currency risk—continued

	December 31, 2013			
	RMB	USD	Others	Total
		(RMB Equivalent)	(RMB Equivalent)	(RMB Equivalent)
Assets				
Cash and deposits with central bank	20,860,385	8,364	1,908	20,870,657
Deposits with banks and other financial institutions	2,131,649	300,930	48,229	2,480,808
Placements with banks and other financial institutions	700,000	—	—	700,000
Financial assets held under resale agreements	8,207,883	—	—	8,207,883
Loans and advances to customers	52,764,531	1,341,394	—	54,105,925
Investments (Note (i))	45,637,037	—	—	45,637,037
Others	3,682,282	4,569	210	3,687,061
Total assets	133,983,767	1,655,257	50,347	135,689,371
Liabilities				
Borrowings from central bank	109,705	914,535	—	1,024,240
Deposits from banks and other financial institutions	12,553,372	—	—	12,553,372
Placements from banks and other financial institutions	—	260,338	—	260,338
Financial assets sold under repurchase agreements	10,130,000	—	—	10,130,000
Deposits from customers	96,035,996	208,505	39,406	96,283,907
Debt securities issued	4,986,736	—	—	4,986,736
Others	2,242,037	3,589	—	2,245,626
Total liabilities	126,057,846	1,386,967	39,406	127,484,219
Net position	7,925,921	268,290	10,941	8,205,152
Off-balance sheet credit commitments	30,851,079	671,834	1,321	31,524,234

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Risk management—continued

(2) Market risk—continued

(b) Currency risk—continued

	December 31, 2014			
	RMB	USD	Others	Total
		(RMB Equivalent)	(RMB Equivalent)	(RMB Equivalent)
Assets				
Cash and deposits with central bank	23,596,695	8,258	4,638	23,609,591
Deposits with banks and other financial institutions	1,287,483	677,659	53,685	2,018,827
Placements with banks and other financial institutions	—	1,156,491	—	1,156,491
Financial assets held under resale agreements	2,697,628	—	—	2,697,628
Loans and advances to customers	60,090,389	1,156,927	1,025	61,248,341
Investments (Note (i))	61,243,221	—	—	61,243,221
Others	4,183,839	6,372	1,631	4,191,842
Total assets	153,099,255	3,005,707	60,979	156,165,941
Liabilities				
Borrowings from central bank	85,826	917,850	—	1,003,676
Deposits from banks and other financial institutions	20,331,994	30,595	—	20,362,589
Placements from banks and other financial institutions	—	1,379,835	—	1,379,835
Financial assets sold under repurchase agreements	10,069,144	—	—	10,069,144
Deposits from customers	101,268,821	415,652	49,187	101,733,660
Debt securities issued	8,335,030	—	—	8,335,030
Others	3,494,937	2,418	2	3,497,357
Total liabilities	143,585,752	2,746,350	49,189	146,381,291
Net position	9,513,503	259,357	11,790	9,784,650
Off-balance sheet credit commitments	25,464,719	238,654	4,048	25,707,421

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Risk management—continued

(2) Market risk—continued

(b) Currency risk—continued

	June 30, 2015			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with central bank	21,538,568	8,973	4,012	21,551,553
Deposits with banks and other financial institutions	1,422,769	1,570,011	19,509	3,012,289
Placements with banks and other financial institutions	63	1,356,997	—	1,357,060
Financial assets held under resale agreements	1,015,501	—	—	1,015,501
Loans and advances to customers	67,079,886	1,056,093	172	68,136,151
Investments (Note (i))	69,965,076	—	—	69,965,076
Others	4,360,129	9,389	2,171	4,371,689
Total assets	165,381,992	4,001,463	25,864	169,409,319
Liabilities				
Borrowings from central bank	125,514	916,890	—	1,042,404
Deposits from banks and other financial institutions	20,013,001	30,563	—	20,043,564
Placements from banks and other financial institutions	—	2,732,332	—	2,732,332
Financial assets sold under repurchase agreements	8,948,800	—	—	8,948,800
Deposits from customers	101,821,524	134,312	15,074	101,970,910
Debt securities issued	17,508,190	—	—	17,508,190
Others	4,997,131	50,875	142	5,048,148
Total liabilities	153,414,160	3,864,972	15,216	157,294,348
Net position	11,967,832	136,491	10,648	12,114,971
Off-balance sheet credit commitments	25,739,703	104,333	60,702	25,904,738

Note:

(i) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, and investment classified as receivables.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Risk management—continued

(2) Market risk—continued

(b) Currency risk—continued

	December 31,			June 30,
	2012	2013	2014	2015
	Increase/ (Decrease)	Increase/ (Decrease)	Increase/ (Decrease)	Increase/ (Decrease)
Increase/(Decrease) in annualized net profit				
Foreign exchange rate increase by 100 bps	237	343	332	181
Foreign exchange rate decrease by 100 bps	(237)	(343)	(332)	(181)

This sensitivity analysis is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions. The analysis is based on the following assumptions:

(i) the foreign exchange sensitivity is the gain or loss recognized as a result of 100 basis point fluctuation in the foreign currency exchange rates against RMB;

(ii) the exchange rates against RMB for all foreign currencies change in the same direction simultaneously;

(iii) the foreign exchange exposures calculated include both spot foreign exchange exposures, forward foreign exchange exposures and options, and all positions will be retained and rolled over upon maturity.

The analysis does not take into account the effect of risk management measures taken by management. Due to the assumptions adopted, actual changes in the Bank's net foreign exchange gain or loss resulting from increases or decreases in foreign exchange rates may differ from the results of this sensitivity analysis.

(3) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business even if a bank's solvency remains strong. Liquidity risk management is to ensure that the Bank has sufficient cash flow to meet payment obligations and fund business operations on a timely basis. To achieve this, the Bank should have the ability to make full payment due on demand deposits or early withdrawal of term deposits, make full repayment of placement upon maturity, or meet other payment obligations. The bank also needs to comply with statutory requirements on liquidity ratios, and actively carry out lending and investment business. The Bank monitors the future cash flow according to its liquidity management policies, and keeps its high liquidity assets at an appropriate level.

The Financial Planning Department performs daily management of liquidity risk under the guidance of Risk Management Committee in accordance with liquidity management objectives of the Bank, and to ensure payment of the Bank's business.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Risk management—continued

(3) Liquidity risk—continued

The Bank holds appropriate amount of liquid assets (such as deposits with central bank, other short-term deposits and securities) to ensure liquidity needs and unpredictable demand for payment in the ordinary course of business. A substantial portion of the Bank's assets are funded by deposits from customers. As a major source of funding, the customer deposits have been growing steadily in recent years and are widely diversified in terms of type and duration.

The Bank principally uses liquidity gap analysis to measure liquidity risk. Stress testing is also adopted to assess the impact of liquidity risk.

(a) Maturity analysis

The following tables provide an analysis of assets and liabilities of the Bank into relevant maturity groupings based on the remaining periods to repayment at the end of each of the Relevant Periods:

	December 31, 2012							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
	(Note (ii))	(Note (ii))						
Assets								
Cash and deposits with central bank	13,299,634	6,772,099	—	—	—	—	—	20,071,733
Deposits with banks and other financial institutions	—	613,350	1,000,000	1,472,686	500,000	—	—	3,586,036
Placements with banks and other financial institutions	—	—	499,795	62,855	500,000	—	—	1,062,650
Financial assets held under resale agreements	—	—	1,039,978	3,039,710	1,777,525	—	—	5,857,213
Loans and advances to customers	240,140	36,485	2,668,274	7,512,574	20,677,949	7,219,339	6,140,836	44,495,597
Investments (Note (i))	23,250	—	320,346	174,487	1,500,999	12,277,100	9,398,417	23,694,599
Others	2,277,481	—	201,433	95,488	308,004	7,990	—	2,890,396
Total assets	15,840,505	7,421,934	5,729,826	12,357,800	25,264,477	19,504,429	15,539,253	101,658,224
Liabilities								
Deposits from banks and other financial institutions	—	37,165	1,000,000	—	1,000,000	700,000	80,000	2,817,165
Placements from banks and other financial institutions	—	—	3,356,379	804,695	100,000	—	—	4,261,074
Financial assets sold under repurchase agreements	—	—	8,742,270	1,505,740	—	—	—	10,248,010
Deposits from customers	—	33,623,323	7,428,085	13,256,757	13,695,968	7,561,052	82,684	75,647,869
Others	11,747	246,700	414,981	94,840	131,113	144,306	203,784	1,247,471
Total liabilities	11,747	33,907,188	20,941,715	15,662,032	14,927,081	8,405,358	366,468	94,221,589
Long / (short) position	15,828,758	(26,485,254)	(15,211,889)	(3,304,232)	10,337,396	11,099,071	15,172,785	7,436,635

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Risk management—continued

(3) Liquidity risk—continued

(a) Maturity analysis—continued

	December 31, 2013							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
	(Note (ii))	(Note (ii))						
Assets								
Cash and deposits with central bank	17,293,799	3,576,858	—	—	—	—	—	20,870,657
Deposits with banks and other financial institutions	—	529,758	85,050	1,016,000	850,000	—	—	2,480,808
Placements with banks and other financial institutions	—	—	—	700,000	—	—	—	700,000
Financial assets held under resale agreements	—	—	3,594,207	3,476,175	137,501	1,000,000	—	8,207,883
Loans and advances to customers	271,281	61,489	4,250,755	7,531,750	25,631,051	8,701,592	7,658,007	54,105,925
Investments (Note (i))	23,250	—	1,594,292	5,029,440	9,003,093	21,955,566	8,031,396	45,637,037
Others	2,978,861	5,074	212,361	112,579	378,186	—	—	3,687,061
Total assets	20,567,191	4,173,179	9,736,665	17,865,944	35,999,831	31,657,158	15,689,403	135,689,371
Liabilities								
Borrowings from central bank	—	—	109,791	—	914,449	—	—	1,024,240
Deposits from banks and other financial institutions	—	77,475	1,024,475	2,403,282	7,348,140	1,700,000	—	12,553,372
Placements from banks and other financial institutions	—	—	18,291	182,907	59,140	—	—	260,338
Financial assets sold under repurchase agreements	—	—	8,164,000	1,966,000	—	—	—	10,130,000
Deposits from customers	—	39,735,414	11,889,559	13,640,168	21,421,859	9,531,360	65,547	96,283,907
Debt securities issued	—	—	—	—	—	4,986,736	—	4,986,736
Others	12,020	122,120	752,539	406,378	698,490	50,899	203,180	2,245,626
Total liabilities	12,020	39,935,009	21,958,655	18,598,735	30,442,078	16,268,995	268,727	127,484,219
Long / (short) position	20,555,171	(35,761,830)	(12,221,990)	(732,791)	5,557,753	15,388,163	15,420,676	8,205,152

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Risk management—continued

(3) Liquidity risk—continued

(a) Maturity analysis—continued

	December 31, 2014							
	Indefinite (Note (ii))	Repayable on demand (Note (ii))	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with central bank	18,165,479	5,444,112	—	—	—	—	—	23,609,591
Deposits with banks and other financial institutions	—	712,877	500,000	305,950	—	500,000	—	2,018,827
Placements with banks and other financial institutions	—	—	795,470	330,426	30,595	—	—	1,156,491
Financial assets held under resale agreements	—	—	209,918	1,845,289	642,421	—	—	2,697,628
Loans and advances to customers	706,120	323,817	3,773,230	6,720,959	29,661,963	9,278,080	10,784,172	61,248,341
Investments (Note (i))	23,250	—	745,963	4,498,695	16,391,305	29,961,882	9,622,126	61,243,221
Others	3,254,578	12,582	366,420	219,779	336,201	2,282	—	4,191,842
Total assets	22,149,427	6,493,388	6,391,001	13,921,098	47,062,485	39,742,244	20,406,298	156,165,941
Liabilities								
Borrowings from central bank	—	—	40,000	40,000	464,751	458,925	—	1,003,676
Deposits from banks and other financial institutions	—	167,894	3,375,880	5,653,860	8,864,955	2,300,000	—	20,362,589
Placements from banks and other financial institutions	—	—	1,174,848	204,987	—	—	—	1,379,835
Financial assets sold under repurchase agreements	—	—	7,423,944	2,645,200	—	—	—	10,069,144
Deposits from customers	—	42,077,362	12,521,616	11,758,229	23,209,778	12,045,153	121,522	101,733,660
Debt securities issued	—	—	—	1,387,208	1,957,232	4,990,590	—	8,335,030
Others	12,214	419,915	1,201,667	879,008	733,062	48,311	203,180	3,497,357
Total liabilities	12,214	42,665,171	25,737,955	22,568,492	35,229,778	19,842,979	324,702	146,381,291
Long / (short) position	22,137,213	(36,171,783)	(19,346,954)	(8,647,394)	11,832,707	19,899,265	20,081,596	9,784,650

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Risk management—continued

(3) Liquidity risk—continued

(a) Maturity analysis—continued

	June 30, 2015							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
	(Note (ii))	(Note (ii))						
Assets								
Cash and deposits with central bank	17,416,101	4,135,452	—	—	—	—	—	21,551,553
Deposits with banks and other financial institutions	—	1,108,643	550,134	733,512	620,000	—	—	3,012,289
Placements with banks and other financial institutions	—	—	745,800	611,260	—	—	—	1,357,060
Financial assets held under resale agreements	—	—	466,234	549,267	—	—	—	1,015,501
Loans and advances to customers	1,561,545	628,171	3,281,947	8,303,868	28,792,005	11,460,976	14,107,639	68,136,151
Investments (Note (i))	23,250	—	3,224,353	5,269,769	15,216,329	36,388,516	9,842,859	69,965,076
Others	3,326,479	42,076	216,039	256,132	518,519	12,444	—	4,371,689
Total assets	22,327,375	5,914,342	8,484,507	15,723,808	45,146,853	47,861,936	23,950,498	169,409,319
Liabilities								
Borrowings from central bank	—	—	48,600	527,945	7,414	458,445	—	1,042,404
Deposits from banks and other financial institutions	—	1,884,921	3,616,620	3,302,863	9,439,160	1,800,000	—	20,043,564
Placements from banks and other financial institutions	—	—	2,487,828	122,252	122,252	—	—	2,732,332
Financial assets sold under repurchase agreements	—	—	8,948,800	—	—	—	—	8,948,800
Deposits from customers	—	36,854,111	12,928,505	13,343,577	24,129,949	14,573,257	141,511	101,970,910
Debt securities issued	—	—	2,993,630	2,807,279	6,619,632	2,894,315	2,193,334	17,508,190
Others	13,618	1,860,418	1,339,372	325,531	740,052	710,159	58,998	5,048,148
Total liabilities	13,618	40,599,450	32,363,355	20,429,447	41,058,459	20,436,176	2,393,843	157,294,348
Long / (short) position	22,313,757	(34,685,108)	(23,878,848)	(4,705,639)	4,088,394	27,425,760	21,556,655	12,114,971

Notes:

(i) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, and investment classified as receivables.

(ii) For cash and deposits with central bank, the indefinite period amount represents statutory deposit reserves and fiscal deposits maintained with the PBOC. Equity investments are reported under indefinite period. For loans and advances to customers, the "indefinite" period amount represents the balance being impaired or overdue for more than one month, and the balance not impaired but overdue within one month is included in "repayable on demand".

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Risk management—continued

(3) Liquidity risk—continued

(b) Analysis on contractual undiscounted cash flows of liabilities

The following tables provide an analysis of the contractual undiscounted cash flow of the liabilities at the end of each of the Relevant Periods:

	December 31, 2012							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Contractual undiscounted cash flow
Deposits from banks and other financial institutions	—	37,165	1,010,685	8,388	1,048,903	843,063	112,263	3,060,467
Placements from banks and other financial institutions	—	—	3,358,961	808,561	103,034	—	—	4,270,556
Financial assets sold under repurchase agreements	—	—	8,754,427	1,523,530	—	—	—	10,277,957
Deposits from customers	—	33,623,323	7,435,617	13,329,994	13,920,710	8,518,700	88,164	76,916,508
Other liabilities	11,747	246,700	414,981	94,840	131,113	144,306	203,784	1,247,471
Total liabilities	11,747	33,907,188	20,974,671	15,765,313	15,203,760	9,506,069	404,211	95,772,959

	December 31, 2013							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Contractual undiscounted cash flow
Borrowings from central bank	—	—	109,792	—	925,105	—	—	1,034,897
Deposits from banks and other financial institutions	—	77,475	1,027,188	2,439,520	7,589,412	1,950,713	—	13,084,308
Placements from banks and other financial institutions	—	—	18,306	183,318	59,511	—	—	261,135
Financial assets sold under repurchase agreements	—	—	8,174,274	1,986,254	—	—	—	10,160,528
Deposits from customers	—	39,735,414	11,900,881	13,707,826	21,757,190	10,766,240	68,216	97,935,767
Debt securities issued	—	—	—	40,700	—	5,750,000	—	5,790,700
Other liabilities	12,020	122,120	752,539	406,378	698,490	50,899	203,180	2,245,626
Total liabilities	12,020	39,935,009	21,982,980	18,763,996	31,029,708	18,517,852	271,396	130,512,961

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Risk management—continued

(3) Liquidity risk—continued

(b) Analysis on contractual undiscounted cash flows of liabilities—continued

	December 31, 2014							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Contractual undiscounted cash flow
Borrowings from central bank	—	—	40,000	40,000	484,512	478,983	—	1,043,495
Deposits from banks and other financial institutions	—	167,894	3,383,537	5,741,619	9,152,181	2,498,063	—	20,943,294
Placements from banks and other financial institutions	—	—	1,175,029	205,559	—	—	—	1,380,588
Financial assets sold under repurchase agreements	—	—	7,432,027	2,662,319	—	—	—	10,094,346
Deposits from customers	—	42,077,362	12,531,268	11,825,680	23,660,790	13,335,200	126,889	103,557,189
Debt securities issued	—	—	—	1,440,700	2,000,000	5,514,200	—	8,954,900
Other liabilities	12,214	419,915	1,201,667	879,008	733,062	48,311	203,180	3,497,357
Total liabilities	12,214	42,665,171	25,763,528	22,794,885	36,030,545	21,874,757	330,069	149,471,169

	June 30, 2015							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Contractual undiscounted cash flow
Borrowings from central bank	—	—	48,600	529,832	20,328	472,918	—	1,071,678
Deposits from banks and other financial institutions	—	1,884,921	3,622,888	3,362,489	9,758,954	1,917,910	—	20,547,162
Placements from banks and other financial institutions	—	—	2,487,947	122,437	123,286	—	—	2,733,670
Financial assets sold under repurchase agreements	—	—	8,949,078	—	—	—	—	8,949,078
Deposits from customers	—	36,854,111	12,939,694	13,406,684	24,559,663	16,396,681	146,760	104,303,593
Debt securities issued	—	—	3,000,000	2,820,000	6,943,108	3,670,320	2,814,900	19,248,328
Other liabilities	13,618	1,860,418	1,339,372	325,531	740,052	710,159	58,998	5,048,148
Total liabilities	13,618	40,599,450	32,387,579	20,566,973	42,145,391	23,167,988	3,020,658	161,901,657

This analysis of the liabilities by contractual undiscounted cash flow might vary from actual results.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Risk management—continued

(4) Operational risk

Operational risk refers to the risk arising from inadequate or failed internal control procedures, personnel and information technology systems, or external events. The primary operational risks the Bank face include internal and external frauds, worksite safety failures, business interruptions and failure in the information technology system.

The Board of Directors is ultimately responsible for the Bank's operational risk management. The Bank's senior management leads the bank-wide operational risk management on a day-to-day basis. The Bank have established "three lines of defenses" to manage operational risk on an end-to-end basis. The business lines and functions are the first line of defense against operational risks, taking direct responsibilities for operational risk management. The legal and compliance department is the second line of defense against operational risks, responsible for the establishment of operational risk management policies and procedures and the coordination, support, and supervision of operational risk management. The audit department is the third line of defense against operational risk, responsible for evaluating the adequacy and effectiveness of operational risk management policies and procedures and assessing the Bank's internal control system and compliance.

(5) Capital management

The Bank's capital management includes capital adequacy ratio management, capital financing management and economic capital management. Among them, capital adequacy ratio management is especially important. The Bank calculates capital adequacy ratios in accordance with the guidance issued by CBRC. The capital of the Bank is divided into three pieces: core tier-one capital, additional tier-one capital and tier-two capital.

Capital adequacy ratio management is the core of the capital management of the Bank. Capital adequacy ratio reflects the Bank's sound operations and risk management capability. The Bank's capital management objectives are to meet the legal and regulatory requirements, and to prudently determine the capital adequacy ratio under realistic exposures with reference to the capital adequacy ratio levels of leading global banks and the Bank's operating situations.

The Bank considers its strategic development plans, business expansion plans and risk variables in conducting its scenario analysis, stress testing and other measures to forecast, plan and manage capital adequacy ratio. The required information is filed with the CBRC by the Bank semi-annually and quarterly.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Risk management—continued

(5) Capital management—continued

The Bank calculates the capital adequacy ratios as at December 31, 2012 in accordance with the Regulation Governing Capital Adequacy of Commercial Banks (商業銀行資本充足率管理辦法) issued by the CBRC in 2004 as follows:

	December 31, 2012
Capital adequacy ratio	13.70%
Core capital adequacy ratio	12.89%
Components of capital base	
Core capital	
—Share capital	2,555,977
—Capital reserve	2,759,440
—Surplus reserve	359,685
—General reserve	867,793
—Retained earnings	714,822
Total core capital	7,257,717
Supplementary capital	
—General provision for loan impairment	467,856
Total supplementary capital	467,856
Total capital base before deductions	7,725,573
Deductions	(17,865)
Net capital base	7,707,708
Net core capital base	7,248,785
Risk weighted assets	56,240,292

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Risk management—continued

(5) Capital management—continued

The Bank calculates the capital adequacy ratios as at December 31, 2013, 2014 and June 30, 2015 in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) issued by the CBRC in 2012 and relevant requirements promulgated by the CBRC as follows:

	December 31, 2013	December 31, 2014	June 30, 2015
Total core tier-one capital	8,205,152	9,784,650	12,114,971
—Share capital	2,555,977	2,555,977	3,111,533
—Qualifying portion of capital reserve	2,564,960	2,853,584	4,332,493
—Surplus reserve	473,876	623,411	623,411
—General reserve	1,334,063	1,886,628	1,886,628
—Retained earnings	1,276,276	1,865,050	2,160,906
Core tier-one capital deductions	(83,631)	(114,721)	(135,681)
Net core tier-one capital	8,121,521	9,669,929	11,979,290
Net tier-one capital	8,121,521	9,669,929	11,979,290
Tier two capital	947,671	1,022,946	3,181,969
—Qualifying portions of tier-two capital instruments issued and related premium	—	—	2,193,334
—Surplus provision for loan impairment	947,671	1,022,946	988,635
Net capital base	9,069,192	10,692,875	15,161,259
Total risk weighted assets	83,334,324	99,449,856	118,607,375
Core tier-one capital adequacy ratio	9.75%	9.72%	10.10%
Tier-one capital adequacy ratio	9.75%	9.72%	10.10%
Capital adequacy ratio	10.88%	10.75%	12.78%

38 Fair value

(1) Methods and assumptions for measurement of fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Bank has established policies and internal controls with respect to the measurement of fair values, specify the framework of fair value measurement of financial instruments, fair value measurement methodologies and procedures.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

38 Fair value—continued

(1) Methods and assumptions for measurement of fair value—continued

The Bank adopts the following methods and assumptions when evaluating fair values:

(a) Debt securities investments

The fair values of debt securities that are traded in an active market are based on their quoted market prices in an active market at the end of each of the Relevant Periods.

(b) Receivables and other non-derivative financial assets

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at the end of each of the Relevant Periods.

(c) Debt securities issued and other non-derivative financial liabilities

Fair values of debt securities issued are based on their quoted market prices at the end of each of the Relevant Periods, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of each of the Relevant Periods.

(2) Financial instruments recorded at fair value

The following tables show an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	December 31, 2012			
	Level 1 Note(i)	Level 2 Note(i)	Level 3 Note(i)~(ii)	Total
Financial assets at fair value through profit or loss				
—debt securities	—	283,745	—	283,745
Available-for-sale financial assets				
—debt securities	—	9,031,306	—	9,031,306
—wealth management products issued by financial institutions	—	380,658	—	380,658
—investment funds	—	50,301	—	50,301
Total	—	9,746,010	—	9,746,010

	December 31, 2013			
	Level 1 Note(i)	Level 2 Note(i)	Level 3 Note(i)~(ii)	Total
Financial assets at fair value through profit or loss				
—debt securities	—	184,496	—	184,496
Available-for-sale financial assets				
—debt securities	—	5,994,039	—	5,994,039
—investment funds	—	59,576	—	59,576
Total	—	6,238,111	—	6,238,111

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

38 Fair value—continued

(2) Financial instruments recorded at fair value—continued

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
	Note(i)	Note(i)	Note(i)~(ii)	
Financial assets at fair value through profit or loss				
—debt securities	—	190,195	—	190,195
Available-for-sale financial assets				
—debt securities	—	13,538,992	—	13,538,992
—trust fund plans	—	—	300,316	300,316
—investment funds	—	259,981	—	259,981
Total	—	13,989,168	300,316	14,289,484

	June 30, 2015			
	Level 1	Level 2	Level 3	Total
	Note(i)	Note(i)	Note(i)~(ii)	
Financial assets at fair value through profit or loss				
—debt securities	—	293,043	—	293,043
Available-for-sale financial assets				
—debt securities	—	10,207,372	—	10,207,372
—trust fund plans	—	—	309,837	309,837
—investment funds	—	60,889	—	60,889
Total	—	10,561,304	309,837	10,871,141

(i) During the Relevant Periods, there were no significant transfers among each level.

(ii) The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

The six month ended June 30, 2015	As at January 1	Transfer into level 3	Transfer out of level 3	Total gains or losses for the period: In profit or loss	Total gains or losses for the period: In other comprehensive income	Purchases, issues, disposals and settlements: Purchases	Issues	Disposals	Settlements	As at June 30	Total gains or losses for the period included in profit of loss for assets held at the end of the period
Available-for-sale financial assets—trust fund plans	300,316	—	—	9,521	—	—	—	—	—	309,837	—
Total	300,316	—	—	9,521	—	—	—	—	—	309,837	—

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

38 Fair value—continued

(2) Financial instruments recorded at fair value—continued

2014	As at January 1	Transfer into level 3	Transfer out of level 3	Total gains or losses for the year: In profit or loss	Total gains or losses for the year: In other comprehensive income	Purchases, issues, disposals and settlements: Purchases	Issues	Disposals	Settlements	As at December 31	Total gains or losses for the year included in profit of loss for assets held at the end of the year
Available-for-sale financial assets— trust fund plans	—	—	—	316	—	300,000	—	—	—	300,316	—
Total	—	—	—	316	—	300,000	—	—	—	300,316	—

The total gains or losses for the year/period in above table were shown as interest income in the statements of profit or loss.

(3) Fair value of financial assets and liabilities not carried at fair value

(i) Cash and deposits with central bank, deposits and placements with / from banks and other financial institutions, financial assets held under resale agreements and sold under repurchase agreements, deposits from customers, loans and advances to customers and financial investments –investment classified as receivables.

The fair value of the above financial assets and financial liabilities is estimated based on future cash flows expected to be received which is discounted at current market rate. Given the majority of these mature within one year or repriced at least annually to the market rate, their carrying values approximate their fair value.

(ii) Held-to-maturity investments

The fair value for held-to-maturity investments is based on "bid" market prices or brokers' / dealers' price quotations. If relevant market information is not available, the fair value is based on quoted price of security products with similar characteristics such as credit risk, maturities and yield.

(iii) Debt securities issued

Fair values of debt securities issued are based on quoted market prices. For debt securities where quoted market prices are not available, a discounted cash flow model is used to calculate their fair value using current market rates appropriate for debt securities with similar remaining maturities.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

38 Fair value—continued

(3) Fair value of financial assets and liabilities not carried at fair value—continued

The following tables summarize the carrying amounts, the fair value and the analysis by level of the fair value hierarchy of held-to-maturity investments and debt securities issued:

	December 31, 2012				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	13,362,901	13,121,241	—	13,121,241	—
Total	13,362,901	13,121,241	—	13,121,241	—

	December 31, 2013				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	18,905,989	17,766,581	—	17,766,581	—
Total	18,905,989	17,766,581	—	17,766,581	—
Financial liabilities					
Securities issued					
—Debt securities	4,986,736	4,757,081	—	4,757,081	—
Total	4,986,736	4,757,081	—	4,757,081	—

	December 31, 2014				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	19,721,428	19,846,408	—	19,846,408	—
Total	19,721,428	19,846,408	—	19,846,408	—
Financial liabilities					
Securities issued					
—Debt securities	4,990,590	4,978,604	—	4,978,604	—
—Certificates of interbank deposit	3,344,440	3,322,204	—	3,322,204	—
Total	8,335,030	8,300,808	—	8,300,808	—

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

38 Fair value—continued

(3) Fair value of financial assets and liabilities not carried at fair value—continued

	June 30, 2015				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	21,728,674	21,952,615	—	21,952,615	—
Total	21,728,674	21,952,615	—	21,952,615	—
Financial liabilities					
Securities issued					
—Debt securities	7,185,699	7,232,064	—	7,232,064	—
—Certificates of interbank deposit	10,322,491	10,150,974	—	10,150,974	—
Total	17,508,190	17,383,038	—	17,383,038	—

39 Commitments and contingent liabilities

(1) Credit commitments

The Bank's credit commitments take the form of bank acceptances, credit card limits, letters of credit and financial guarantees.

Acceptances comprise of undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be settled simultaneously with the reimbursement from its customers. The contractual amounts of credit card commitments represent the amounts should the contracts be fully drawn upon. The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties.

	December 31,			June 30,
	2012	2013	2014	2015
Bank acceptances	18,621,546	22,941,940	17,794,176	19,566,248
Letters of credit	2,546,397	3,731,323	5,012,524	4,279,468
Letters of guarantees	2,164,791	2,620,297	2,087,552	1,389,109
Loan commitments	570,000	2,070,000	528,700	350,000
Unused credit card commitments	108,942	160,674	284,469	319,913
Total	24,011,676	31,524,234	25,707,421	25,904,738

The Bank may be exposed to credit risk in all the above credit businesses. Management periodically assesses credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

(2) Credit risk-weighted amount

	December 31,			June 30,
	2012	2013	2014	2015
Credit risk-weighted amount of contingent liabilities and commitments	7,322,485	9,561,380	7,934,979	8,598,262

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

39 Commitments and contingent liabilities—continued

(2) Credit risk-weighted amount—continued

The credit risk-weighted amount represents the amount calculated with reference to the guidelines issued by the CBRC. The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors.

(3) Operating lease commitments

As at the end of each of the Relevant Periods, the Bank's future minimum lease payments under non-cancellable operating leases for properties are as follows:

	December 31,			June 30,
	2012	2013	2014	2015
Within one year (inclusive)	67,036	67,422	87,725	85,678
After one year but within five years (inclusive)	241,551	272,456	339,131	310,887
After five years	134,056	226,627	295,835	267,295
Total	442,643	566,505	722,691	663,860

(4) Capital commitments

As at the end of each of the Relevant Periods, the Bank's authorized capital commitments are as follows:

	December 31,			June 30,
	2012	2013	2014	2015
Contracted but not paid for	284,593	261,398	267,889	417,823
Total	284,593	261,398	267,889	417,823

(5) Outstanding litigations and disputes

As at December 31, 2012, 2013, 2014 and June 30, 2015, there are no significant legal proceedings outstanding against the Bank. Management is in the opinion that it is not necessary to provide any contingent liabilities as at the Relevant Period.

(6) Bonds redemption obligations

As an underwriting agent of PRC government bonds, the Bank has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity dates is based on the nominal value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

39 Commitments and contingent liabilities—continued

(6) Bonds redemption obligations—continued

The redemption obligations below represent the nominal value of government bonds underwritten and sold by the Bank, but not yet matured at the reporting date:

	December 31,			June 30,
	2012	2013	2014	2015
Bonds redemption obligations	1,584,756	1,968,932	2,408,237	2,566,337

(7) Pledged assets

	December 31,			June 30,
	2012	2013	2014	2015
Investment securities	9,253,609	12,025,413	12,739,261	11,507,917
Discounted bills	2,328,360	—	—	—
Total	11,581,969	12,025,413	12,739,261	11,507,917

Some of the Bank's assets are pledged as collateral under repurchase agreements, deposits from banks and other financial institutions and borrowings from central bank.

The Bank maintains statutory deposit reserves with the PBOC as required (Note 14). These deposits are not available for the Bank's daily operations.

The Bank's pledged assets in relation to the purchase of bills under resale agreements can be sold or repledged. The fair value of such pledged assets was RMB5,366 million, RMB4,853 million, RMB2,698 million and RMB1,016 million as at December 31, 2012, 2013 and 2014 and June 30, 2015, respectively. As at December 31, 2012, 2013 and 2014 and June 30, 2015, the Bank sold or repledged RMB2,326 million, nil, nil and nil of pledged assets which it has an obligation to repurchase on due, respectively.

40 Involvement with unconsolidated structured entities

(1) Structured entities sponsored by third party institutions in which the Bank holds an interest

The Bank holds an interest in some structured entities sponsored by third party institutions through investments in the notes issued by these structured entities. The Bank does not consolidate these structured entities. Such structured entities include wealth management products issued by financial institutions, asset management plans, trust fund plans, asset-backed securities and investment funds. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors and are financed through the issue of notes to investors.

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

40 Involvement with unconsolidated structured entities—continued

(1) Structured entities sponsored by third party institutions in which the Bank holds an interest—continued

The following tables set out an analysis of the carrying amounts of interests held by the Bank as at December 31, 2012, 2013, 2014 and June 30, 2015 in the structured entities sponsored by third party institutions, as well as an analysis of the line items in the statements of financial position in which relevant assets are recognized:

	December 31, 2012			
	Available for sale financial assets	Investment classified as receivables	Carrying amount	Maximum exposure
Trust fund plans	400,000	—	400,000	400,000
Wealth management products issued by financial institutions	380,658	—	380,658	380,658
Asset-backed securities	100,000	—	100,000	100,000
Investment funds	50,301	—	50,301	50,301
Total	930,959	—	930,959	930,959

	December 31, 2013			
	Available for sale financial assets	Investment classified as receivables	Carrying amount	Maximum exposure
Asset management plans	—	18,792,734	18,792,734	18,792,734
Trust fund plans	—	1,500,000	1,500,000	1,500,000
Asset-backed securities	6,897	—	6,897	6,897
Investment funds	59,576	—	59,576	59,576
Total	66,473	20,292,734	20,359,207	20,359,207

	December 31, 2014			
	Available for sale financial assets	Investment classified as receivables	Carrying amount	Maximum exposure
Asset management plans	—	17,783,494	17,783,494	17,783,494
Trust fund plans	300,316	9,327,783	9,628,099	9,628,099
Asset-backed securities	388,228	—	388,228	388,228
Investment funds	259,981	—	259,981	259,981
Total	948,525	27,111,277	28,059,802	28,059,802

	June 30, 2015			
	Available for sale financial assets	Investment classified as receivables	Carrying amount	Maximum exposure
Asset management plans	—	19,819,780	19,819,780	19,819,780
Trust fund plans	309,837	8,847,391	9,157,228	9,157,228
Wealth management products issued by financial institutions	—	1,018,904	1,018,904	1,018,904
Asset-backed securities	392,107	—	392,107	392,107
Investment funds	60,889	—	60,889	60,889
Total	762,833	29,686,075	30,448,908	30,448,908

B NOTES TO THE FINANCIAL INFORMATION—continued

(Expressed in thousands of Renminbi, unless otherwise stated)

40 Involvement with unconsolidated structured entities—continued

(1) Structured entities sponsored by third party institutions in which the Bank holds an interest—continued

The maximum exposures to loss in the above investment products are the amortized cost or the fair value (whichever is higher) of the assets held by the Bank at the end of each of the Relevant Periods in accordance with the line items of these assets recognized in the statements of financial position.

(2) Unconsolidated structured entities sponsored by the Bank in which the Bank holds an interest

The types of unconsolidated structured entities sponsored by the Bank mainly include non-principal-guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of notes to investors. Interest held by the Bank includes fees charged by providing management services to these structured entities. As at December 31, 2012, 2013 and 2014 and June 30, 2015, the carrying amounts of the management fee receivables being recognized are not material in the statements of financial positions.

As at December 31, 2012, 2013 and 2014, and June 30, 2015, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Bank, are RMB 5.052 billion, RMB 9.532 billion, RMB 21.538 billion and RMB 26.922 billion, respectively.

In addition, unconsolidated structured entities sponsored by the Bank also include asset-backed securities. As at December 31, 2014 and June 30, 2015, the balances of these asset-backed securities are RMB 0.143 billion and RMB 0.061 billion, respectively. There were no asset-backed securities sponsored by the Bank in 2012 and 2013.

(3) Structured entities sponsored and issued by the Bank after January 1, but matured before December 31, or June 30, at the end of each of the Relevant Periods in which the Bank no longer holds an interest

During the year ended December 31, 2012, 2013 and 2014, and the period ended June 30, 2014 and 2015, the amount of fee and commission income recognized from the above mentioned structured entities by the Bank is RMB 2 million, RMB 24 million, RMB 29 million, RMB 6 million, and RMB 34 million, respectively.

The aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Bank after January 1, 2012, 2013 and 2014 but matured before December 31, 2012, 2013 and 2014 are RMB 1.606 billion, RMB 25.264 billion, and RMB 64.876 billion, respectively.

The aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Bank after January 1, 2014 and 2015 but matured before June 30, 2014 and 2015 are RMB 17.482 billion and RMB 27.749 billion, respectively.

B NOTES TO THE FINANCIAL INFORMATION—continued
(Expressed in thousands of Renminbi, unless otherwise stated)

41 Transfer of financial assets

(1) Asset securitization

The Bank enters into securitization transactions in the normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors.

In October 2014, the Bank transferred a portfolio of customer loans with book value of RMB 2.833 billion to an unconsolidated securitization vehicle managed by an independent trust company, which issued asset-backed securities to investors. As the consideration received was equivalent to the book value of the financial assets transferred, no gain or loss was recognized.

Under the servicing arrangements with the independent trust company, the Bank collects the cash flows of the transferred assets on behalf of the unconsolidated securitization vehicle. In return, the Bank receives a fee that is expected to compensate the Bank for servicing the related assets.

(2) Transfer of credit assets

In December 2014, the Bank transferred credit assets of RMB 248 million to an independent third party. As the consideration received was equivalent to the book value of the assets transferred, no gain or loss was recognized.

42 Fiduciary activities

The Bank commonly acts as a trustee, or in other fiduciary capacities, that result in its holding or managing assets on behalf of individuals, trusts and other institutions. These assets and any gains or losses arising thereon are not included in the statements of financial position as they are not the Bank's assets.

As at December 31, 2012, 2013 and 2014 and June 30, 2015, the entrusted loans balance of the Bank is RMB0.795 billion, RMB1.255 billion, RMB5.677 billion and RMB7.174 billion, respectively.

43 Subsequent events

The Bank had no material events for disclosure subsequent to June 30, 2015 and up to the date of the Accountants' Report.

C SUBSEQUENT FINANCIAL STATEMENTS AND DIVIDENDS

No audited financial statements have been prepared by the Bank in respect of any period subsequent to June 30, 2015. Save as disclosed in the Financial Information, no dividend or distribution has been declared or made by the Bank in respect of any period subsequent to June 30, 2015.

Yours faithfully,

KPMG
Certified Public Accountants
Hong Kong

The information set out below does not form part of the Accountants' Report prepared by the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong, as set out in Appendix I, and is included herein for information purpose only.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

In accordance with the Listing Rules and Banking (Disclosure) Rules, the Bank discloses the unaudited supplementary Financial Information as follows:

1 Liquidity ratios and leverage ratio

(1) Liquidity ratios

	As at December 31, 2012	Average for the year ended December 31, 2012
RMB current assets to RMB current liabilities	49.70%	43.14%
Foreign currency current assets to foreign currency current liabilities	92.44%	70.46%

	As at December 31, 2013	Average for the year ended December 31, 2013
RMB current assets to RMB current liabilities	41.04%	40.10%
Foreign currency current assets to foreign currency current liabilities	110.53%	130.65%

	As at December 31, 2014	Average for the year ended December 31, 2014
RMB current assets to RMB current liabilities	45.67%	41.05%
Foreign currency current assets to foreign currency current liabilities	37.04%	49.42%

	As at June 30, 2015	Average for the period ended June 30, 2015
RMB current assets to RMB current liabilities	47.58%	48.48%
Foreign currency current assets to foreign currency current liabilities	7.77%	17.83%

(2) Leverage ratio

	As at June 30, 2015
Leverage ratio	6.25%

Pursuant to the Leverage Ratio Management of Commercial Banks (Amended) issued by the CBRC and was effective since April 1, 2015, a minimum leverage ratio 4% is required.

1 Liquidity ratios and leverage ratio—continued

The above liquidity ratios and leverage ratio were calculated in accordance with the formulas promulgated by the China Banking Regulatory Commission (the "CBRC"), and based on the Financial Information prepared in accordance with "Accounting Standards for Business Enterprises" issued by the Ministry of Finance in the People's Republic of China.

2 Currency concentrations

	December 31, 2012			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	799,308	3,889	58,171	861,368
Spot liabilities	(608,673)	(94)	(53,567)	(662,334)
Net long position	190,635	3,795	4,604	199,034

	December 31, 2013			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	1,655,257	23,527	26,820	1,705,604
Spot liabilities	(1,386,967)	(19,894)	(19,512)	(1,426,373)
Net long position	268,290	3,633	7,308	279,231

	December 31, 2014			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	3,005,707	10,334	50,645	3,066,686
Spot liabilities	(2,746,350)	(6,309)	(42,880)	(2,795,539)
Net long position	259,357	4,025	7,765	271,147

	June 30, 2015			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	4,001,463	11,205	14,659	4,027,327
Spot liabilities	(3,864,972)	(6,127)	(9,089)	(3,880,188)
Net long position	136,491	5,078	5,570	147,139

The Bank has no structural position during the Relevant Periods.

3 International claims

The Bank regards all claims on third parties outside Mainland China and claims dominated in foreign currency on third parties inside Mainland China as international claims.

International claims include loans and advances to customers, deposits with central bank, deposits and placements with banks and other financial institutions and investments in debt securities.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

	December 31, 2012			
	Official sector	Banks and other financial institutions	Non-bank private sector	Total
—Asia Pacific	14,545	485,322	285,765	785,632
—of which attributed to Hong Kong	—	3,602	—	3,602
—North and South America	—	100,149	—	100,149
—Europe	—	10,574	—	10,574
	14,545	596,045	285,765	896,355

	December 31, 2013			
	Official sector	Banks and other financial institutions	Non-bank private sector	Total
—Asia Pacific	7,784	68,125	1,373,611	1,449,520
—of which attributed to Hong Kong	—	22,470	—	22,470
—North and South America	—	270,000	—	270,000
—Europe	—	11,034	—	11,034
	7,784	349,159	1,373,611	1,730,554

	December 31, 2014			
	Official sector	Banks and other financial institutions	Non-bank private sector	Total
—Asia Pacific	6,928	1,527,326	1,178,490	2,712,744
—of which attributed to Hong Kong	—	8,521	—	8,521
—North and South America	—	342,739	—	342,739
—Europe	—	17,770	—	17,770
	6,928	1,887,835	1,178,490	3,073,253

3 International claims—continued

	June 30, 2015			
	Official sector	Banks and other financial institutions	Non-bank private sector	Total
—Asia Pacific	7,229	2,689,576	1,068,144	3,764,949
—of which attributed to Hong Kong	—	6,759	—	6,759
—North and South America	—	250,352	—	250,352
—Europe	—	6,589	—	6,589
	7,229	2,946,517	1,068,144	4,021,890

4 Gross amount of overdue loans and advances to customers

	December 31,			June 30,
	2012	2013	2014	2015
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of				
—between 3 and 6 months (inclusive)	22,980	38,460	200,636	263,193
—between 6 months and 1 year (inclusive)	83,979	104,820	261,483	358,475
—over 1 year	197,587	205,379	226,968	323,875
Total	304,546	348,659	689,087	945,543
As a percentage of total gross loans and advances to customers				
—between 3 and 6 months (inclusive)	0.05%	0.07%	0.32%	0.38%
—between 6 months and 1 year (inclusive)	0.18%	0.19%	0.41%	0.51%
—over 1 year	0.43%	0.37%	0.36%	0.46%
Total	0.66%	0.63%	1.09%	1.35%

The information set forth in this appendix does not form part of the Accountants' Report prepared by KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of the Bank, as set forth in Appendix I in this prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the financial information included in the Accountants' Report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of Bank of Qingdao Co., Ltd. (the "Bank") is prepared in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and is set out below to illustrate the effect of the proposed offering by the Bank of its ordinary shares (the "Global Offering") on the net tangible assets of the Bank attributable to the shareholders of the Bank as of June 30, 2015, as if the Global Offering had taken place on June 30, 2015.

The unaudited pro forma statement of adjusted 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 Bank had the Global Offering been completed as of June 30, 2015 or at any future date.

	Net tangible assets attributable to shareholders of the Bank as of June 30, 2015	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per share	
	RMB Million Note(1)	RMB Million Note(2)/(5)	RMB Million Note(3)	RMB Note(4)	HK$ Note(6)
Based on an offer price of HK$4.75 per share	11,979	3,378	15,357	3.83	4.66
Based on an offer price of HK$5.21 per share	11,979	3,710	15,689	3.91	4.76

Notes:

(1) The net tangible assets attributable to shareholders of the Bank as of June 30, 2015 is based on total equity of the Bank of RMB12,115 million less intangible assets of RMB136 million as of June 30, 2015.

(2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK$4.75 per H Share (being the minimum offer price) and HK$5.21 per H Share (being the maximum offer price) and the assumption that there are 900,000,000 newly issued H Shares in the Global Offering, after deduction of the underwriting fees and other expenses related to the Global Offering and takes no account of any shares which may be issued upon the exercise of the Over-allotment Option.

(3) The unaudited pro forma adjusted net tangible assets do not take into account the financial results or other transactions of the Bank subsequent to June 30, 2015.

(4) The unaudited pro forma adjusted net tangible assets per share is arrived on the basis of 4,011,532,749 shares in issue assuming that the Global Offering has been completed on June 30, 2015 and that the Over-allotment Option is not exercised.

(5) The estimated net proceeds from the Global Offering are translated into Renminbi at the rate of RMB0.82134 to HK$1.00, the exchange rate set by the PBOC prevailing on November 13, 2015. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi at that rate or at any other rate.

(6) The unaudited pro forma adjusted net tangible assets per share is translated into Hong Kong dollars at exchange rate of RMB0.82134 to HK$1.00. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars at that rate or at any other rate.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Bank's unaudited pro forma financial information for the purpose of incorporation in this prospectus.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

November 20, 2015

TO THE DIRECTORS OF BANK OF QINGDAO CO., LTD.

We have completed our assurance engagement to report on the compilation of pro forma financial information of Bank of Qingdao Co., Ltd. (the "Bank") by the directors of the Bank (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets as at June 30, 2015 and related notes as set out in Part A of Appendix III to the prospectus dated November 20, 2015 (the "Prospectus") issued by the Bank. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix III to the prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed offering of the ordinary shares of the Bank (the "Global Offering") on the Bank's financial position as at June 30, 2015 as if the Global Offering had taken place at June 30, 2015. As part of this process, information about the Bank's financial position as at June 30, 2015 has been extracted by the Directors from the Bank's historical financial information included in the Accountants' Report as set out in Appendix I to the prospectus.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Bank as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of events or transactions as at June 30, 2015 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Bank, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our procedures on the pro forma financial information have not been carried out in accordance with attestation standards or other standards and practices generally accepted in the United States of America, auditing standards of the Public Company Accounting Oversight Board (United States) or any overseas standards and accordingly should not be relied upon as if they had been carried out in accordance with those standards and practices.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Bank's shares, the application of those net proceeds, or whether such use will actually take place as described in the section headed "Future Plans and Use of Proceeds" in the prospectus.

Opinion

In our opinion:

a) the pro forma financial information has been properly compiled on the basis stated;

b) such basis is consistent with the accounting policies of the Bank, and

c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG
Certified Public Accountants
Hong Kong

This Appendix sets out summaries of certain aspects of PRC laws and regulations, which are relevant to our operations and business. Laws and regulations relating to taxation in the PRC are discussed separately in Appendix VI—"Taxation and Foreign Exchange" to this prospectus. This Appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain material differences between the company law of PRC and the Hong Kong, certain requirements of the Listing Rules and additional provisions required by the Hong Kong Stock Exchange for inclusion in the articles of association of PRC issuers. The principal objective of this summary is to provide potential investors with an overview of the principal laws and regulations applicable to us. This summary is not intended to include all the information which may be important to the potential investors. For discussion of laws and regulations which are relevant to our business, see "Supervision and Regulation".

PRC LAWS AND REGULATIONS

A. The PRC Legal System

The PRC legal system is based on the PRC Constitution (the "Constitution") and is made up of written laws, administrative regulations, local regulations, autonomous regulations, separate regulations, rules and regulations of State Council departments, rules and regulations of local governments, laws of special administrative regions and international treaties of which the PRC government is a signatory and other regulatory documents. Court judgments do not constitute legally binding precedents, although they are used for the purposes of judicial reference and guidance.

The NPC and its Standing Committee are empowered to exercise the legislative power of the State. The NPC has the power to formulate and amend basic laws governing State organs, civil, criminal and other matters. The Standing Committee of the NPC is empowered to formulate and amend laws other than those required to be enacted by the NPC and to supplement and amend parts of the laws enacted by the NPC during the adjournment of the NPC, provided that such supplements and amendments are not in conflict with the basic principles of such laws.

The State Council is the highest organ of state administration and has the power to formulate administrative regulations based on the Constitution and laws.

The people's congresses of the provinces, autonomous regions and municipalities directly under the central government and their respective standing committees may formulate local regulations based on the specific circumstances and actual needs of their respective administrative areas, provided that such local regulations do not contravene any provision of the Constitution, laws or administrative regulations. The people's congresses of cities divided into districts and their respective standing committees may formulate local regulations on aspects such as urban and rural construction and management, environmental protection and historical and cultural protection based on the specific circumstances and actual needs of such cities, provided that such local regulations do not contravene any provision of the Constitution, laws, administrative regulations and local regulations of their respective provinces or autonomous regions. However, if the law provides otherwise on the formulation of local regulations by cities divided into districts, those provisions shall prevail. Such local regulations will become enforceable after being reported to and approved by the standing committees of the People's congresses of the relevant provinces or autonomous regions. People's congresses of national autonomous areas have the power to enact autonomous regulations and separate regulations in light of the political, economic and cultural characteristics of the ethnic groups in the areas concerned.

The ministries and commissions of the State Council, PBoC, NAO and the subordinate institutions with administrative functions directly under the State Council may formulate rules and regulations within the jurisdiction of their respective departments based on the laws and administrative regulations, and the decisions and orders of the State Council. Provisions of departmental rules should be the matters related to the enforcement of the laws and administrative regulations, and the decisions and orders of the State Council. The people's governments of the provinces, autonomous regions, municipalities directly under the central government, and cities or autonomous prefectures divided into districts may formulate rules and regulations based on the laws, administrative regulations and local regulations of such provinces, autonomous regions and municipalities directly under the central government.

According to the Constitution, the power to interpret laws is vested in the Standing Committee of the NPC. Pursuant to the Resolution of the Standing Committee of the NPC Providing an Improved Interpretation of the Law (《全國人民代表大會常務委員會關於加強法律解釋工作的決議》) passed on June 10, 1981, issues related to the application of laws or decrees in a court trial should be interpreted by the Supreme People's Court, issues related to the application of laws or decrees in a prosecution process should be interpreted by the Supreme People's Procuratorate, and the other issues related to the application of laws or decrees other than the above-mentioned should be interpreted by the State Council and the competent authorities. The State Council and its ministries and commissions are also vested with the power to give interpretations of the statutes and administrative regulations which they have promulgated. At the regional level, the power to interpret regional laws is vested in the regional legislative and administrative authorities which promulgate such laws.

B. The PRC Judicial System

Under the Constitution and the Law of Organization of the People's Courts of the PRC (《中華人民共和國人民法院組織法》), the PRC judicial system is made up of the Supreme People's Court, the local people's courts, the military courts and other special people's courts. The local people's courts are divided into three levels, namely, the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are further divided into civil, criminal and economic divisions, and certain people's courts based on the natures of the region, population and cases. The intermediate people's courts have divisions similar to those of the basic people's courts and may set up other divisions, such as the intellectual property division, if needed. These two levels of people's courts are subject to supervision by people's courts at higher levels. The Supreme People's Procuratorate is authorized to supervise the judgment and ruling of the People's courts at all levels which have been legally effective, and the people's procuratorate at a higher level is authorized to supervise the judgment and ruling of a People's court at lower levels which have been legally effective. The Supreme People's Court is the highest judicial authority in the PRC. It supervises the administration of justice by the people's and all special people's courts.

The people's courts apply a two-tier appellate system. A party may appeal against the judgment or ruling of the first instance of a local people's court. The people's procuratorate may present a protest to the people's court at the next higher level in accordance with the procedures stipulated by the laws. In the absence of any appeal by the parties and any protest by the people's procuratorate within the stipulated period, the judgments or rulings of the people's court are final. Judgments or rulings of the second instance of the intermediate people's courts, the higher people's courts and the Supreme People's Court, and judgments or rulings of the first instance of the Supreme People's Court are final. However, if the Supreme People's Court discovers an error in a judgment or ruling of a People's Court at any level which has come into effect, or if a People's Court at the next higher level discovers an error in a judgment or ruling of a People's Court at lower level which has come into effect, it shall have the right to arraign or order the People's Court at lower level to re-try the case. If the president of a People's Court at any level discovers an error in a judgment or ruling of the court which has come into effect and deemed that there is a need for re-trial, the matter shall be submitted to the Judicial Committee for discussion and decision.

The Civil Procedure Law of the PRC (《中華人民共和國民事訴訟法》) (the "PRC Civil Procedure Law") adopted on April 9, 1991 and amended on October 28, 2007 and August 31, 2012 prescribes the filing of a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action, and the procedural standards enforcement of a civil judgment or ruling. All parties to a civil action conducted within the PRC must abide by the PRC Civil Procedure Law. A civil case is generally heard by the court located in the defendant's place of domicile. The court of jurisdiction in respect of a civil action may also be chosen by written agreement among the parties to a contract, provided that the people's court having jurisdiction should be located at places actually connected with the disputes, such as the plaintiff's or the defendant's place of domicile, the place where the contract is executed or signed or the place where the object of the action is located. Such choice shall not contravene the regulations of differential jurisdiction and exclusive jurisdiction.

A foreign individual, a person without nationality or foreign enterprise or organization is generally given the same litigation rights and obligations as a citizen, legal person or other organization of the PRC. Should a foreign court limit the litigation rights of PRC citizens, legal persons or other organizations, the PRC court may apply the same limitations to the citizens, enterprises and organizations of such foreign country. A foreign individual, a person without nationality or foreign enterprise or organization must engage a PRC lawyer in case he or it needs to engage a lawyer for the purpose of initiating actions or defending against litigations at a PRC court. In accordance with the international treaties to which the PRC is a signatory or participant or according to the principle of reciprocity, a PRC court and foreign court may request each other to serve legal documents, conduct investigation and collect evidence and conduct other actions on its behalf. A PRC court shall not accommodate any request made by a foreign court which will result in the violation of sovereignty, security or public interests of the PRC.

All parties to a civil action shall perform the legally effective judgments and rulings. If a party to a civil action refuses to abide by a judgment or ruling made by a people's court or an award made by an arbitration tribunal in the PRC, the other party may apply to the people's court for the enforcement of the same within two years subject to the regulations concerning suspension or interruption of time limitation for litigation stipulated by the law.

A party seeking to enforce a judgment or ruling of a people's court against another party who is not or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or ruling. Likewise, if the PRC has entered into either a treaty relating to judicial enforcement with the relevant foreign country or a relevant international convention, a foreign judgment or ruling may also be recognized and enforced in accordance with the PRC enforcement procedures by a PRC court based on equitable principles unless the people's court considers that the recognition or enforcement of such judgment or ruling would violate the basic legal principles of the PRC, its sovereignty or national security, or would not be in the public interest.

C. The PRC Company Law, the Special Regulations and the Mandatory Provisions

The PRC Company Law was adopted by the Standing Committee of the Eighth NPC at its Fifth Session on December 29, 1993 and came into effect on July 1, 1994. It was amended on December 25, 1999, August 28, 2004, October 27, 2005 and December 28, 2013. The revised PRC Company Law came into effect on March 1, 2014.

The Special Regulations were passed at the 22nd Standing Committee Meeting of the State Council on July 4, 1994 and promulgated and implemented on August 4, 1994. The Special Regulations include provisions in respect of the overseas share offering and listing of joint stock limited companies.

The Mandatory Provisions jointly promulgated by the former Securities Commission of the State Council and the former State Restructuring Commission on August 27, 1994 prescribe the provisions which must be incorporated in the articles of association of joint stock limited companies to be listed overseas. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association, a summary of which is set out in Appendix V—"Summary of Articles of Association" of this prospectus.

Set out below is a summary of the major provisions of the PRC Company Law, the Special Regulations and the Mandatory Provisions.

General

A "joint stock limited company ("company")" refers to a corporate legal person established in China under the PRC Company Law with independent legal person properties and entitlements to such legal person properties. The liability of the company is limited to the total amount of all assets it owns and the liability of its shareholders is limited to the extent of the shares they subscribe for.

Incorporation

A company may be incorporated by promotion or subscription. A company may be incorporated by a minimum of two but no more than 200 promoters, and at least half of the promoters must be resident within the PRC. Companies incorporated by promotion are companies of which the entire registered capital is subscribed for by the promoters. Shares in the company shall not be offered to others unless the registered capital has been fully paid up. For companies incorporated by subscription, the registered capital is the total paid-up capital as registered with the relevant registration authorities. If laws, regulations and State Council decisions provide otherwise on paid-in registered capital and the minimum registered capital, the company should follow such provisions.

For companies incorporated by way of promotion, the promoters shall subscribe in writing for the shares required to be subscribed for by them and pay up their capital contributions under the articles of association. Procedures relating to the transfer of titles to non-monetary assets shall be duly completed if such assets are to be contributed as capital. Promoters who fail to pay up their capital contributions in accordance with the foregoing provisions shall assume default liabilities in accordance with the covenants set out in the promoters' agreement. After the promoters have confirmed the capital contribution under the articles of association, a board of directors and a supervisory board shall be elected and the board of directors shall apply for registration of incorporation by filing the articles of association with the company registration authority, and other documents as required by the law or administrative regulations.

Where companies are incorporated by subscription, not less than 35% of their total number of shares must be subscribed for by the promoters, unless otherwise provided for by the laws or administrative regulations. A promoter who offers shares to the public must publish a share offering prospectus and prepare a share subscription form to be completed, signed and sealed by subscribers, specifying the number and amount of shares to be subscribed for and the subscribers' addresses. The subscribers shall pay up monies for the shares they subscribe for. Where a promoter is offering shares to the public, such offer shall be underwritten by security companies established under laws, and underwriting agreements shall be entered into. A promoter offering shares to the public shall also enter into agreements with banks in relation to the receipt of subscription monies. The receiving banks shall receive and keep in custody the subscription monies, issue receipts to subscribers who have paid the subscription monies and is obliged to furnish evidence of receipt of those subscription monies to relevant authorities. After the subscription monies for the share issue have been paid in full, a capital verification institution established under PRC law must be engaged to conduct a capital verification and furnish a report thereon. The promoters shall convene an inauguration meeting within 30 days following the full payment of subscription money. The inauguration meeting shall be formed by the promoters and subscribers. Where the shares issued remain undersubscribed by the cut-off date stipulated in the share offering prospectus, or where the promoter fails to convene an inauguration meeting within 30 days of the subscription monies for the shares issued being fully paid up, the subscribers may demand that the promoters refund the subscription monies so paid together with the interest at bank rates of a deposit for the same period. Within 30 days of the conclusion of the inauguration meeting, the board of directors shall apply to the company registration authority for registration of the establishment of the company.

A company's promoter shall be liable for:

(i) the debts and expenses incurred in the incorporation process jointly and severally if the company cannot be incorporated;

(ii) the refund of subscription monies paid by the subscribers together with interest at bank rates of deposit for the same period jointly and severally if the company cannot be incorporated; and

(iii) the compensation of any damages suffered by the company as a result of the promoters' default in the course of its incorporation.

Share Capital

The promoters may make a capital contribution in currencies, or non-monetary assets such as in kind or intellectual property rights or land use rights which can be appraised with monetary value and transferred lawfully, except for assets which are prohibited from being contributed as capital by the laws or administrative regulations. The value of non-monetary assets as capital contributions shall be assessed and verified, which shall not be over-valued or under-valued. If any law or administrative regulations provides for the value assessment, such law or administrative regulation shall be followed.

The issuance of shares shall be conducted in a fair and equitable manner. The same class of shares must carry equal rights. Shares issued at the same time and within the same class must be issued on the same conditions and at the same price. The same price per share shall be paid by any share subscriber. The share offering price may be equal to or greater than the nominal value of the share, but may not be less than the nominal value.

A company must obtain the approval of CSRC to offer its shares to the overseas public. The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas shall be in registered form, denominated in Renminbi and subscribed for in foreign currency. Shares issued to foreign investors and investors from the territories of Hong Kong, Macau and Taiwan and listed in Hong Kong are classified as H shares, and those shares issued to investors within the PRC, except these regions above, are known as domestic shares. Under the Special Regulations, upon approval of CSRC, a company may agree, in the underwriting agreement in respect of an issue of H shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued in addition to the number of underwritten shares.

Under the PRC Company Law, a company issuing registered share certificates shall maintain a shareholder registry which sets forth the following matters:

(i) the name and domicile of each shareholder;

(ii) the number of shares held by each shareholder;

(iii) the serial numbers of shares held by each shareholder; and

(iv) the date on which each shareholder acquired the shares.

Increase in Share Capital

Where a company is issuing new shares, resolutions shall be passed at general meeting in accordance with the articles of association in respect of the class and amount of the new shares, the issue price of the new shares, the commencement and end dates for the issue of the new shares and the class and amount of the new shares proposed to be issued to existing shareholders.

When a company launches a public issue of new shares upon the approval by CSRC, a new share offering prospectus and financial accounting report must be published and a subscription form must be prepared. After the new share issue of the company has been paid up, the change must be registered with the company registration authority and a public announcement must be made accordingly. Where an increase in registered capital of a company is made by means of an issue of new shares, the subscription of new shares by shareholders shall be made in accordance with the relevant provisions on the payment of subscription monies for the incorporation of a company.

Reduction of Share Capital

A company may reduce its registered capital in accordance with the following procedures prescribed by the PRC Company Law:

(i) the company shall prepare a balance sheet and an inventory of assets;

(ii) the reduction of registered capital must be approved by shareholders at general meeting;

(iii) the company shall notify its creditors of the reduction in share capital within 10 days and publish an announcement of the reduction in newspapers within 30 days of the resolution approving the reduction being passed;

(iv) the creditors of the company may within the statutory time limit require the company to repay its debts or provide guarantees for covering the debts; and

(v) the company must apply to company registration authority for registration of the reduction in registered capital.

Repurchase of Shares

A company may not purchase its own shares other than for one of the following purposes:

(i) reducing its registered capital;

(ii) merging with other company which holds its shares;

(iii) granting shares to its employees as incentives; and

(iv) acquiring its own shares at the request of its shareholders who vote in a shareholders' general meeting against a resolution regarding a merger or division.

The acquisition by a company of its own shares on the grounds set out in (i) to (iii) above must be approved by way of a resolution of a shareholders' general meeting. Following the acquisition by a company of its own shares in accordance with these requirements, such shares must be cancelled within 10 days of the date of the acquisition in the case of (i) and transferred or cancelled within six months in the case of (ii) or (iv).

The acquisition by a company of its own shares in accordance with (iii) above shall not exceed 5% of the total number of issued shares of the company. Such acquisition shall be financed by funds allocated from the company's profits after taxation, and the shares so acquired shall be transferred to the employees within one year.

Transfer of Shares

Shares held by shareholders may be transferred in accordance with the relevant laws and regulations. A shareholder should effect a transfer of his shares on a stock exchange established in accordance with laws or by any other means as required by the State Council. Registered shares may be transferred after the shareholders endorse the back of the share certificates or in any other manner specified by the laws or administrative regulations. Following the transfer, the company shall enter the names and addresses of the transferees into its share register. No changes of registration in the share register described above shall be effected during a period of 20 days prior to convening a shareholders' general meeting or 5 days prior to the record date for the purpose of determining entitlements to dividend distributions, subject to any legal provisions on the registration of changes in the share register of listed companies. The transfer of bearer share certificates shall become effective upon the delivery of the certificates to the transferee by the shareholder. The Mandatory Provision provides that changes due to share transfer should not be made to shareholder registry within 30 days before a shareholders' general meeting or within 5 days before the record date for the purpose of determining entitlements to dividend distributions.

Shares held by promoters may not be transferred within one year of the establishment of the company. Shares of the company issued prior to the public issue of shares may not be transferred within one year of the date of the company's listing on a stock exchange. Directors, supervisors and the senior management of a company shall declare to the company their shareholdings in it and any changes in such shareholdings. During their terms of office, they may transfer no more than 25% of the total number of shares they hold in the company ever year. They shall not transfer the shares they hold within one year of the date of the company's listing on a stock exchange, nor within six months after they leave their positions in the company. The articles of association may set out other restrictive provisions in respect of the transfer of shares in the company held by its directors, supervisors and the senior management.

Shareholders

Under the PRC Company Law, the rights of shareholders include the rights:

(i) to receive a return on assets, participate in significant decision-making and select management personnel;

(ii) to petition the people's court to revoke any resolution passed at a shareholders' general meeting or a meeting of board of directors that has not been convened in compliance with the laws or the articles of association or whose voting has been conducted in an invalid manner, or any resolution the contents of which is in violation of the articles of association, provided that such petition shall be submitted within 60 days of the passing of such resolution;

(iii) to transfer the shares of the shareholders according to the applicable laws and regulations and the articles of association;

(iv) to attend or appoint a proxy to attend shareholders' general meetings;

(v) to inspect the articles of association, share register, counterfoil of company debentures, minutes of shareholders' general meetings, board resolutions, resolutions of the supervisory board and financial and accounting reports and to make suggestions or inquiries in respect of the company's operations;

(vi) to receive dividends in respect of the number of shares held;

(vii) to receive residual properties of the company in proportion to their shareholdings upon the liquidation of the company; and

(viii) any other shareholders' rights provided for in the articles of association.

The obligations of shareholders include the obligation to abide by the company's articles of association, to pay the subscription monies in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up by them and any other shareholder obligation specified in the articles of association.

Shareholders' General Meetings

The general meeting is the organ of authority of the company, which exercises its powers in accordance with the PRC Company Law. The general meeting may exercise its powers:

(i) to decide on the company's operational objectives and investment plans;

(ii) to elect and replace the directors and supervisors (not being representative(s) of employees) and to decide on the matters relating to the remuneration of directors and supervisors;

(iii) to review and approve the reports of the board of directors;

(iv) to review and approve the reports of the supervisory board or supervisors;

(v) to review and approve the company's annual financial budgets and final accounts;

(vi) to review and approve the company's profit distribution proposals and loss recovery proposals;

(vii) to decide on any increase or reduction of the company's registered capital;

(viii) to decide on the issue of corporate bonds;

(ix) to decide on merger, division, dissolution and liquidation of the company or change of its corporate form;

(x) to amend the company's articles of association; and

(xi) to exercise any other authority stipulated in the articles of association.

A shareholders' general meeting is required to be held once every year. An extraordinary general meeting is required to be held within two months of the occurrence of any of the following:

(i) the number of directors is less than the number stipulated by the laws or less than two-thirds of the number specified in the articles of association;

(ii) the outstanding losses of the company amounted to one-third of the company's total paid-in share capital;

(iii) shareholders individually or in aggregate holding 10% or more of the company's shares request that an extraordinary general meeting is convened;

(iv) the board deems necessary;

(v) the supervisory board so requests; or

(vi) any other circumstances as provided for in the articles of association.

A shareholders' general meeting shall be convened by the board of directors, and presided over by the chairman of the board of directors. In the event that the chairman is incapable of performing or is not performing his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or is not performing his duties, a director nominated by half or more of the directors shall preside over the meeting. Where the board of directors is incapable of performing or is not performing its duties to convene the general meeting, the supervisory board shall convene and preside over such meeting in a timely manner. If the supervisory board fails to convene and preside over such meeting, shareholders individually or in aggregate holding 10% or more of the company's shares for 90 days or more consecutively may unilaterally convene and preside over such meeting.

In accordance with the PRC Company Law, a notice of the general meeting stating the date and venue of the meeting and the matters to be considered at the meeting shall be given to all shareholders 20 days before the meeting. A notice of extraordinary general meeting shall be given to all shareholders 15 days prior to the meeting. For the issuance of bearer share certificates, the time and venue of and matters to be considered at the meeting shall be announced 30 days before the meeting.

In accordance with the Mandatory Provisions, a notice of the general meeting stating matters to be considered at the meeting and the date and venue of the meeting shall be given to all shareholders 45 days before the meeting. A shareholder who intends to attend the meeting shall deliver his written reply regarding his attendance of the meeting to the company 20 days before the date of the meeting.

There is no specific provision in the PRC Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting. Pursuant to the Special Regulations and the Mandatory Provisions, general meeting may be convened where the number of voting shares held by the shareholders present at the meeting reaches one-half or more of the company's total voting shares. Otherwise the company shall, within five days, notify the shareholders again of the matters to be considered and time and venue of the meeting to shareholders by public announcement.

The company may convene the general meeting after such public announcement. Pursuant to the Mandatory Provisions, modification or abrogation of rights conferred to any class of shareholders shall be passed both by special resolution of general meeting and by class meeting convened respectively by shareholders of the affected class.

Pursuant to the Special Regulations, where the company convenes annual shareholders' general meeting, shareholders holding more than 5% of voting shares have a right to submit to the company new proposals in writing, in which the matters falling within the scope of shareholders' general meeting shall be placed in the agenda of the meeting.

Shareholders present at a shareholders' general meeting have one vote for each share they hold, save that shares held by the company are not entitled to any voting rights. Resolutions of the general meeting must be passed by more than half of the voting rights held by shareholders present at the meeting, with the exception of matters relating to merger, division or dissolution of the company, increase or reduction of registered share capital, change of corporate form or amendments to the articles of association, which in each case must be passed by at least two-thirds of the voting rights held by the shareholders present at the meeting. Where the PRC Company Law and the articles of association provide that the transfer or acquisition of significant assets or the provision of external guarantees by the company must be approved by way of resolution of the general meeting, the directors shall convene a shareholders' general meeting promptly to vote on such matters. An accumulative voting system may be adopted for the election of directors and supervisors at the general meeting pursuant to the provisions of the articles of association or a resolution of the general meeting. Under the accumulative voting system, each share shall be entitled to the number of votes equivalent to the number of directors or supervisors to be elected at the general meeting, and shareholders may consolidate their votes for one or more directors or supervisors when casting a vote.

Minutes shall be prepared in respect of matters considered at the general meeting and the chairman and directors attending the meeting shall endorse such minutes by signature. The minutes shall be kept together with the shareholders' attendance register and the proxy forms.

According to the Mandatory Provisions, the increase or reduction of share capital, the issuance of shares of any class, warrants or other similar securities and bonds, the division, merger, dissolution and liquidation of the company, the amendments to the articles of association and any other matters, which, as resolved by way of an ordinary resolution of the general meeting, may have a material impact on the company and require adoption by way of a special resolution, must be approved through special resolutions by no less than two-thirds of the voting rights held by shareholders present at the meeting.

The Mandatory Provisions require a special resolution to be passed at the general meeting and a class meeting to be held in the event of a variation or derogation of the class rights of a shareholder class. For this purpose, holders of domestic shares and H Shares are deemed to be shareholders of different classes.

Board

A company shall have a board, which shall consist of 5 to 19 members. Members of the board may include staff representatives, who shall be democratically elected by the company's staff at a staff representative assembly, general staff meeting or otherwise. The term of a director shall be stipulated in the articles of association, provided that no term of office shall last for more than three years. A director may serve consecutive terms if re-elected. A director shall continue to perform his/her duties as a director in accordance with the laws, administrative regulations and the articles of association until a duly reelected director takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office or if the resignation of directors results in the number of directors being less than the quorum.

Under the PRC Company Law, the board of directors may exercise its powers:

(i) to convene shareholders' general meetings and report on its work to the shareholders' general meetings;

(ii) to implement the resolutions passed by the shareholders at the shareholders' general meetings;

(iii) to decide on the company's operational plans and investment proposals;

(iv) to formulate proposal for the company's annual financial budgets and final accounts;

(v) to formulate the company's profit distribution proposals and loss recovery proposals;

(vi) to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;

(vii) to formulate proposals for the merger, division or dissolution of the company or change of corporate form;

(viii) to decide on the setup of the company's internal management organs;

(ix) to appoint or dismiss the company's general manager and decide on his/her remuneration and, based on the general manager's recommendation, to appoint or dismiss any deputy general manager and financial officer of the company and to decide on their remunerations;

(x) to formulate the company's basic management system; and

(xi) to exercise any other authority stipulated in the articles of association.

Meetings of the board of directors shall be convened at least twice each year. Notices of meeting shall be given to all directors and supervisors 10 days before the meeting. Interim board meetings may be proposed to be convened by shareholders representing more than 10% of the voting rights, more than one-third of the directors or the supervisory board. The chairman shall convene the meeting within 10 days of receiving such proposal, and preside over the meeting. The board may otherwise determine the means and the period of notice for convening an interim board meeting. Meetings of the board of directors shall be held only if more than half of the directors are present. Resolutions of the board shall be passed by more than half of all directors. Each director shall have one vote for a resolution to be approved by the board. Directors shall attend board meetings in person. If a director is unable to attend for any reason, he/she may appoint another director to attend the meeting on his/her behalf by a written power of attorney specifying the scope of authorization that his/her representative has.

If a resolution of the board of directors violates the laws, administrative regulations or the articles of association or resolutions of the general meeting, and as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proved that a director expressly objected to the resolution when the resolution was voted on, and that such objection was recorded in the minutes of the meeting, such director shall be relieved from that liability.

Under the PRC Company Law, the following persons may not serve as a director in a company:

(i) a person who is unable or has limited ability to undertake any civil liabilities;

(ii) a person who has been convicted of an offense of corruption, bribery, embezzlement, misappropriation of property or destruction of the socialist economic order, or who has been deprived of his political rights due to their crimes, in each case where less than five years have elapsed since the date of completion of the sentence;

(iii) a person who has been a former director, factory manager or manager of a company or an enterprise that has entered into insolvent liquidation and who was personally liable for the insolvency of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;

(iv) a person who has been a legal representative of a company or an enterprise that has had its business license revoked due to violations of the law and has been ordered to close down by law and the person was personally responsible, where less than three years have elapsed since the date of such revocation; and

(v) a person who is liable for a relatively large amount of debts that are overdue.

Where a company elects or appoints a director to which any of the above circumstances applies, such election or appointment shall be null and void. A director to which any of the above circumstances applies during his/her term of office shall be released of his/her duties by the company.

Other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions.

The board shall appoint a chairman and may appoint a vice chairman.

The chairman and the vice chairman shall be elected with approval of more than half of all the directors. The chairman shall convene and preside over board meetings and review the implementation of board resolutions. The vice chairman shall assist the chairman to perform his/her duties. Where the chairman is incapable of performing or is not performing his/her duties, the duties shall be performed by the vice chairman. Where the vice chairman is incapable of performing or is not performing his/her duties, a director nominated by more than half of the directors shall perform his/her duties.

Supervisory Board

A company shall have a supervisory board composed of not less than three members. The supervisory board consists of representatives of the shareholders and an appropriate proportion of representatives of the company's staff. The actual proportion shall be determined in the articles of association, provided that the proportion of representatives of the company's staff shall not be less than one-third. Representatives of the company's staff at the supervisory board shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise. The supervisory board shall appoint a chairman and may appoint vice chairmen. The chairman and the vice chairman of the supervisory board shall be elected by more than half of the supervisors.

According to the Reply of the Overseas Listing Department of CSRC and the Production System Department of the State Commission for Restructuring the Economic System on Opinions Concerning the Supplement and Amendment to Articles of Association by Companies to Be Listed in Hong Kong (《中國證監會海外上市部、國家體改委生產體制司關於到香港上市公司對公司章程作補充修改的意見的函》), the chairman of the supervisory board shall be appointed or removed by more than two-thirds of the supervisors.

The chairman of the supervisory board shall convene and preside over supervisory board meetings. Where the chairman of the supervisory board is incapable of performing or is not performing his/her duties, the vice chairman of the supervisory board shall convene and preside over supervisory board meetings. Where the vice chairman of the supervisory board is incapable of performing or is not performing his/her duties, a supervisor nominated by more than half of the supervisors shall convene and preside over supervisory board meetings. Directors and senior management shall not act concurrently as supervisors.

Each term of office of a supervisor is three years and he/she may serve consecutive terms if reelected. A supervisor shall continue to perform his/her duties as a supervisor in accordance with the laws, administrative regulations and the articles of association until a re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office or if the resignation of supervisors results in the number of supervisors being less than the quorum.

The supervisory board may exercise its powers:

(i) to review the company's financial position;

(ii) to supervise the directors and senior management in their performance of their duties and to propose the removal of directors and senior management who have violated laws, regulations, the articles of association or shareholders' resolutions;

(iii) when the acts of a director or senior management personnel are detrimental to the company's interests, to require the director and senior management to correct these acts;

(iv) to propose the convening of extraordinary shareholders' general meetings and to convene and preside over shareholders' general meetings when the board fails to perform the duty of convening and presiding over shareholders' general meetings under the PRC Company Law;

(v) to submit proposals to the shareholders' general meetings;

(vi) to bring actions against directors and senior management personnel pursuant to the relevant provisions of the PRC Company Law; and

(vii) to exercise any other authority stipulated in the articles of association.

Supervisors may be present at the meetings of the board and make inquiries or proposals in respect of the resolutions of the board. The supervisory board may investigate any irregularities identified in the operation of the company and, when necessary, may engage an accounting firm to assist its work at the cost of the company.

Manager and Senior Management

A company shall have a manager who shall be appointed or removed by the board of directors. The manager, who reports to the board of directors, may exercise his/her powers:

(i) to manage the business and administration of the company and arrange for the implementation of the resolutions of the board of directors;

(ii) to arrange for the implementation of the company's annual business plans and investment proposals;

(iii) to formulate proposals for the establishment of the company's internal management organs;

(iv) to formulate the fundamental management system of the company;

(v) to formulate the company's specific rules and regulations;

(vi) to recommend the appointment or dismissal of any deputy manager and any financial officer of the company;

(vii) to appoint or dismiss management personnel (other than those required to be appointed or dismissed by the board of directors); and

(viii) to exercise any other authority granted by the board of directors.

Other provisions in the articles of association on the manager's powers shall also be complied with. The manager shall be present at meetings of the board of directors. However, the general manager shall have no voting rights at meetings of the board of directors unless he/she concurrently serves as a director.

According to the PRC Company Law, senior management refers to the manager, deputy manager, financial officer, secretary to the board of a listed company and other personnel as stipulated in the articles of association.

Duties of Directors, Supervisors, Managers and Other Senior Management

Directors, supervisors, the manager, the deputy manager and senior management are required under the PRC Company Law to comply with the relevant laws, regulations and the articles of association, and carry out their duties in good faith.

Directors, supervisors, managers and management personnel are prohibited from abusing their power to accept bribes or other unlawful income and from misappropriating the company's property. Directors and senior management are prohibited from:

(i) misappropriating company funds;

(ii) depositing company funds into accounts under their own names or the names of other individuals;

(iii) loaning company funds to others or providing guarantees in favor of others supported by company's property in violation of the articles of association or without approval of the general meeting or the board of directors;

(iv) entering into contracts or transactions with the company in violation of the articles of association or without approval of the general meeting;

(v) using their position to procure business opportunities for themselves or others that should have otherwise been available to the company or operating for their own benefits or managing on behalf of others' businesses similar to that of the company without approval of the general meeting;

(vi) accepting and possessing commissions paid by a third party for transactions conducted with the company;

(vii) unauthorized divulgence of confidential information of the company; and

(viii) other acts in violation of their duty of loyalty to the company.

Income generated by directors or senior management in violation of aforementioned shall be returned to the company.

A director, supervisor or senior management who contravenes any law, regulation or the company's articles of association in the performance of his/her duties resulting in any loss to the company shall be liable to the company for compensation.

Where a director, supervisor or senior management is required to attend a shareholders' general meeting, such director, supervisor or senior management shall attend the meeting and answer the inquiries from shareholders. Directors and senior management shall furnish relevant information and materials to the supervisory board without impeding the discharge of duties by the supervisory board.

Where a director or senior management contravenes any law, regulation or the company's articles of association in the performance of his/her duties resulting in any loss to the company, shareholder(s) holding individually or in aggregate no less than 1% of the company's shares consecutively for at least 180 days may request in writing that the supervisory board institute litigation at a people's court on its behalf. Where the supervisory board violates the laws or administrative regulations or the articles of association in the discharge of their duties resulting in any loss to the company, such shareholder(s) may request in writing that the board of directors institute litigation at a people's court on its behalf. If the supervisory board or the board of directors refuses to institute litigation after receiving this written request from the shareholder(s), or fails to institute litigation within 30 days of the date of receiving the request, or in case of emergency where failure to institute litigation immediately will result in irrecoverable damage to the company's interests, shareholder(s) shall have the power to institute litigation directly at a people's court in its own name for the company's benefit. For other parties who infringe the lawful interests of the company resulting in loss to the company, such shareholder(s) may institute litigation at a people's court in accordance with the procedure described above. Where a director or senior management contravenes any laws, administrative regulations or the articles of association in infringement of shareholders' interests, a shareholder may also institute litigation at a people's court.

The Special Regulations and the Mandatory Provisions provide that a company's directors, supervisors, managers and other senior management shall have duty of loyalty to the company. They are required to faithfully perform their duties, to protect the interests of the company and not to use their positions for their own benefits. The Mandatory Provisions contain detailed stipulations on these duties.

Finance and Accounting

A company shall establish its own financial and accounting systems according to the laws, administrative regulations and the regulations of the competent financial departments of the State Council. At the end of each financial year, a company shall prepare a financial and accounting report which shall be audited by an accounting firm in accordance with the laws. The financial and accounting reports shall be prepared in accordance with the laws, administrative regulations and the regulations of the financial departments of the State Council.

The company's financial and accounting reports shall be made available for shareholders' inspection at the company 20 days before the convening of an annual general meeting. A joint stock limited company that makes public stock offerings shall publish its financial and accounting reports.

When distributing each year's profits after taxation, the company shall set aside 10% of its profits after taxation for the company's statutory common reserve fund until the fund has reached 50% or more of the company's registered capital. When the company's statutory common reserve fund is not sufficient to make up for the company's losses for the previous years, the current year's profits shall first be used to make good the losses before any allocation is set aside for the statutory common reserve fund. After the company has made allocations to the statutory common reserve fund from its profits after taxation, it may, upon passing a resolution at a shareholders' general meeting, make further allocations from its profits after taxation to the discretionary common reserve fund. After the company has made good its losses and made allocations to its discretionary common reserve fund, the remaining profits after taxation shall be distributed in proportion to the number of shares held by the shareholders, except for those which are not distributed in a proportionate manner as provided by the articles of association.

Profits distributed to shareholders by a resolution of a shareholders' general meeting or the board of directors before losses have been made good and allocations have been made to the statutory common reserve fund in violation of the requirements described above must be returned to the company. The company shall not be entitled to any distribution of profits in respect of shares held by it.

The premium over the nominal value of the shares of the company on issue and other income as required by the financial department of the State Council to be treated as the capital reserve fund shall be accounted for as the capital reserve fund. The common reserve fund of a company shall be applied to make good the company's losses, expand its business operations or increase its capital. The capital reserve fund, however, shall not be used to make good the company's losses. Upon the transfer of the statutory common reserve fund into capital, the balance of the fund shall not be less than 25% of the registered capital of the company before such transfer.

The company shall have no accounting books other than the statutory books. The company's assets shall not be deposited in any account opened under the name of an individual.

Appointment and Retirement of Accounting Firms

Pursuant to the PRC Company Law, the appointment or dismissal of an accounting firm responsible for the company's auditing shall be determined by shareholders at a shareholders' general meeting or the board of directors in accordance with the articles of association. The accounting firm should be allowed to make representations when the general meeting or the board of directors conduct a vote on the dismissal of the accounting firm on their respective meetings. The company should provide true and complete accounting evidence, accounting books, financial and accounting reports and other accounting information to the newly-engaged accounting firm without any refusal or withholding or falsification of information.

The Special Regulations require a company to engage an independent qualified accounting firm to audit the company's annual reports and to review and check other financial reports of the company. The accounting firm's term of office shall commence from the end of the shareholders' annual general meeting to the end of the next shareholders' annual general meeting.

Profit Distribution

According to the PRC Company Law, a company shall not distribute profits before losses are covered and the statutory common reserve fund is provided. Under the Mandatory Provisions, a company shall appoint receiving agents on behalf of holders of the overseas listed and foreign invested shares to receive on behalf of such shareholders dividends and other distributions payable in respect of their overseas listed and foreign invested shares.

Amendments to the Articles of Association

Pursuant to PRC Company Law, the resolution of a shareholders' general meeting regarding any amendment to a company's articles of association requires affirmative votes by at least two-thirds of the votes held by shareholders attending the meeting. Pursuant to the Mandatory Provisions, the company may amend its articles of association according to the laws, administrative regulations and our Articles of Association. The amendment to articles of association involving content of Mandatory Provisions will only be effective upon approval of the department in charge of company examination and approval and the securities regulatory department authorized by the State Council, while the amendment to articles of association involving matters of company registration must be registered with the relevant authority in accordance with applicable laws.

Dissolution and Liquidation

A company shall be dissolved for any of the following reasons:

(i) the term of its operation set out in the articles of association has expired or other events of dissolution specified in the articles of association have occurred;

(ii) the shareholders have resolved at a shareholders' general meeting to dissolve the company;

(iii) the company is dissolved by reason of its merger or division;

(iv) the business license of the company is revoked or the company is ordered to close down or to be dissolved in accordance with the laws; or

(v) the company is dissolved by a people's court in response to the request of shareholders holding shares that represent more than 10% of the voting rights of all shareholders of the company, on the grounds that the operation and management of the company has suffered serious difficulties that cannot be resolved through other means, rendering on-going existence of the company a cause for significant losses to the shareholders.

In the event of paragraph (i) above, the company may carry on its existence by amending its articles of association. The amendments to the articles of association in accordance with the provisions described above shall require the approval of more than two thirds of voting rights of shareholders attending a shareholders' general meeting.

Where the company is dissolved under the circumstances set forth in paragraph (i), (ii), (iv) or (v) above, it should establish a liquidation committee within 15 days of the date on which the dissolution matter occurs. The liquidation committee shall be composed of directors or any other people determined by a shareholders' general meeting. If a liquidation committee is not established within the prescribed period, the company's creditors may file an application with a people's court, requesting that the court appoint relevant personnel to form a liquidation committee to administer the liquidation. The people's court should accept such application and form a liquidation committee to conduct liquidation in a timely manner.

The liquidation committee may exercise its powers during the liquidation:

(i) to dispose of the company's assets and to prepare a balance sheet and an inventory of assets;

(ii) to notify the company's creditors or publish announcements;

(iii) to deal with any outstanding business related to the liquidation;

(iv) to pay any overdue tax together with any tax arising during the liquidation process;

(v) to settle the company's financial claims and liabilities;

(vi) to handle the company's remaining assets after its debts have been paid off; and

(vii) to represent the company in any civil procedures.

The liquidation committee shall notify the company's creditors within 10 days of its establishment, and publish an announcement in newspapers within 60 days.

A creditor shall lodge his claim with the liquidation committee within 30 days of receipt of the notification or within 45 days of the date of the announcement if he has not received any notification. A creditor shall, in making his claim, state all matters relevant to his creditor's rights and furnish relevant evidence. The liquidation committee shall register such creditor's rights. The liquidation committee shall not make any settlement to creditors during the period of the claim.

Upon disposal of the company's property and preparation of the required balance sheet and inventory of assets, the liquidation committee shall draw up a liquidation plan and submit this plan to a shareholders' general meeting or a people's court for endorsement. The remaining assets of the company, after payment of liquidation expenses, employee wages, social insurance expenses and statutory compensation, outstanding taxes and the company's debts, shall be distributed to shareholders in proportion to shares held by them. The company shall continue to exist during the liquidation period, although it cannot engage in operating activities that are not related to the liquidation. The company's property shall not be distributed to shareholders before repayments are made in accordance with the requirements described above.

Upon liquidation of the company's property and preparation of the required balance sheet and inventory of assets, if the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must apply to a people's court for a declaration of bankruptcy in accordance with the laws. Following such declaration by the people's court, the liquidation committee shall hand over the administration of the liquidation to the people's court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' general meeting or a people's court for confirmation of its completion. Following such confirmation, the report shall be submitted to the company registration authority to cancel the company's registration, and an announcement of its termination shall be published. Members of the liquidation committee are required to discharge their duties in good faith and in compliance with relevant laws. Members of the liquidation committee shall be prohibited from abusing their authority in accepting bribes or other unlawful income and from misappropriating the company's properties. Members of the liquidation committee are liable to indemnify the company and its creditors in respect of any loss arising from their wilful or material default.

Liquidation of a company declared bankrupt according to laws shall be processed in accordance with the laws on corporate bankruptcy.

Overseas Listing

The shares of a company shall only be listed overseas after obtaining approval from CSRC, and the listing must be arranged in accordance with procedures specified by the State Council. Pursuant to the Special Regulations, a company may issue shares to overseas investors and list its shares overseas upon approval from CSRC. Subject to approval of the company's plans to issue overseas-listed foreign invested shares and domestic shares by CSRC, the board of directors of the company may make arrangement to implement such plans for issuance of the foreign invested shares and domestic shares, respectively, within fifteen (15) months from the date of approval by CSRC.

Loss of Share Certificates

A shareholder may, in accordance with the public notice procedures set out in the PRC Civil Procedure Law, apply to a people's court if his share certificate(s) in registered form is either stolen, lost or destroyed, for a declaration that such certificate(s) will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issue of a replacement certificate(s).

A separate procedure regarding the loss of overseas listed and foreign invested share certificates is provided for in the Mandatory Provisions.

Merger and Division

A merger agreement shall be signed by merging companies and the involved companies shall prepare respective balance sheets and inventory of assets. The companies shall within 10 days of the date of passing the resolution approving the merger notify their respective creditors and publicly announce the merger within 30 days. A creditor may, within 30 days of receipt of the notification, or within 45 days of the date of the announcement if he has not received the notification, request the company to settle any outstanding debts or provide relevant guarantees. In case of a merger, the credits and debts of the merging parties shall be assumed by the surviving or the new company.

In case of a division, the company's assets shall be divided and a balance sheet and an inventory of assets shall be prepared. When a resolution regarding the company's division is approved, the company should notify all its creditors within 10 days of the date of passing such resolution and publicly announce the division in newspapers within 30 days. Unless an agreement in writing is reached with creditors in respect of the settlement of debts, the liabilities of the company which have accrued prior to the separation shall be jointly borne by the separated companies.

Changes in the registration of the companies as a result of the merger or division shall, if so required, be registered with the company registration authority for registration.

In accordance with the laws, cancellation of a company shall be registered when a company is dissolved and incorporation of a company shall be registered when a new company is incorporated.

D. The PRC Securities Laws, Regulations and Regulatory Regimes

The PRC has promulgated a number of regulations that relate to the issue and trading of shares and disclosure of information. In October 1992, the State Council established the Securities Committee and CSRC. The Securities Committee is responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering CSRC. CSRC is the regulatory arm of the Securities Committee and is responsible for the drafting of regulatory provisions governing securities markets, supervising securities companies, regulating public offerings of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities-related statistics and undertaking relevant research and analysis. In April 1998, the State Council consolidated the Securities Committee and CSRC and reformed CSRC.

The Provisional Regulations Concerning the Issue and Trading of Shares (《股票發行與交易管理暫行條例》) govern the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, clearing and transfer of listed equity securities, the disclosure of information, investigation, penalties and dispute resolutions with respect to a listed company.

On December 25, 1995, the State Council promulgated the Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Companies (《國務院關於股份有限公司境內上市外資股的規定》). These regulations principally govern the issue, subscription, trading and declaration of dividends and other distributions of domestic listed foreign shares and disclosure of information of joint stock limited companies having domestic listed foreign shares.

The Securities Law of the PRC (《中國證券法》) (the "PRC Securities Law") took effect on July 1, 1999 and was revised as of August 28, 2004, October 27, 2005, June 29, 2013 and August 31, 2014, respectively. It was the first national securities law in the PRC, and is divided into 12 chapters and 240 articles regulating, among other matters, the issue and trading of securities, takeovers by listed companies, securities exchanges, securities companies and the duties and responsibilities of the State Council's securities regulatory authorities. The PRC Securities Law comprehensively regulates activities in the PRC securities market. Article 238 of the PRC Securities Law provides that domestic enterprises must obtain prior approval from the State Council Securities regulatory authorities to list shares outside the PRC. Currently, the issue and trading of foreign issued shares are principally governed by the rules and regulations promulgated by the State Council and CSRC.

E. Arbitration and Enforcement of Arbitral Awards

The Arbitration Law of the PRC (《中華人民共和國仲裁法》) (the "PRC Arbitration Law") was enacted by the Standing Committee of the NPC on August 31, 1994, which became effective on September 1, 1995 and was amended on August 27, 2009. It is applicable to, among other matters, economic disputes involving foreign parties where all parties have entered into a written agreement to resolve disputes by arbitration before an arbitration committee constituted in accordance with the PRC Arbitration Law. The PRC Arbitration Law provides that an arbitration committee may, before the promulgation of arbitration regulations by the PRC Arbitration Association, formulate interim arbitration rules in accordance with the PRC Arbitration Law and the PRC Civil Procedure Law. Where the parties have agreed to settle disputes by means of arbitration, a people's court will refuse to handle a legal proceeding initiated by one of the parties at such people's court, unless the arbitration agreement has lapsed.

The Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of a company listed in Hong Kong and, in the case of the Listing Rules, also in contracts between the company and each director or supervisor. Pursuant to such clause, whenever a dispute or claim arises from any right or obligation provided in the articles of association, the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of the company between (i) a holder of overseas listed foreign shares and the company; (ii) a holder of overseas listed foreign shares and a holder of domestic shares; or (iii) a holder of overseas listed foreign shares and the company's directors, supervisors or other management personnel, such parties shall be required to refer such dispute or claim to arbitration at either the CIETAC or the HKIAC. Disputes in respect of the definition of shareholder and disputes in relation to the company's shareholder registry need not be resolved by arbitration. If the party seeking arbitration elects to arbitrate the dispute or claim at the HKIAC, then either party may apply to have such arbitration conducted in Shenzhen in accordance with the securities arbitration rules of the HKIAC.

Under the PRC Arbitration Law, an arbitral award shall be final and binding on the parties involved in the arbitration. If any party fails to comply with the award, the other party to the award may apply to a people's court for its enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration commission if there is any procedural irregularity (including irregularity in the composition of the arbitration committee, the jurisdiction of the arbitration commission, or the making of an award on matters beyond the scope of the arbitration agreement).

Any party seeking to enforce an arbitral award of a foreign affairs arbitration organ of the PRC against a party who or whose property is not located within the PRC may apply to a foreign court with jurisdiction over the case for enforcement of the award. Likewise, an arbitral award made by a foreign arbitration body may be recognized and enforced by a PRC court in accordance with the principle of reciprocity or any international convention concluded or acceded to by the PRC.

The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention") adopted on June 10, 1958 pursuant to a resolution of the Standing Committee of the NPC passed on December 2, 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by other parties thereto subject to their rights to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of that state. At the time of the PRC's accession to the Convention, the Standing Committee of the NPC declared that (i) the PRC will only recognize and enforce foreign arbitral awards based on the principle of reciprocity; and (ii) the PRC will only apply the New York Convention to disputes deemed under PRC law to be arising from contractual or non-contractual mercantile legal relations. An arrangement for reciprocal enforcement of arbitral awards between Hong Kong and the PRC was made on June 18, 1999 and became effective on February 1, 2000. The arrangement reflects the spirit of the New York Convention, allowing awards made by PRC arbitral authorities to be enforced in Hong Kong and awards by Hong Kong arbitral authorities to be enforced in the PRC.

SUMMARY OF MATERIAL DIFFERENCES BETWEEN HONG KONG AND PRC COMPANY LAW

The Hong Kong law applicable to a company incorporated in Hong Kong is based on the Companies Ordinance and the Companies (Winding up and Miscellaneous Provisions) Ordinance and is supplemented by common law and the rules of equity that are applicable to Hong Kong. As a joint stock limited company established in the PRC that is seeking a listing of shares on the Hong Kong Stock Exchange, we are governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law.

Set out below is a summary of certain material differences between Hong Kong company law applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited company incorporated and existing under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

Corporate Existence

Under Hong Kong company law, a company with share capital, is incorporated by the Registrar of Companies in Hong Kong which issues a certificate of incorporation to the Company upon its incorporation and the company will acquire an independent corporate existence. A company may be incorporated as a public company or a private company. Pursuant to the Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain certain preemptive provisions. A public company's articles of association do not contain such provisions.

Under the PRC Company Law, a joint stock limited company may be incorporated by promotion or subscription. The amended PRC Company Law which came into effect on March 1, 2014 has no provision on the minimum registered capital of joint stock company, except that laws, administrative regulations and State Council decisions have separate provisions on paid-in registered capital and the minimum registered capital, in which case the company should follow such provisions.

Share Capital

Under Hong Kong law, the directors of a Hong Kong company may, with the prior approval of the shareholders if required, issue new shares of the company. The PRC Company Law provides that any increase in our registered capital must be approved by our shareholders' general meeting and the relevant PRC governmental and regulatory authorities.

Under the PRC Securities Law, a company which is approved by the relevant securities regulatory authority to list its shares on a stock exchange must have a total share capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirement for a Hong Kong company.

Under the PRC Company Law, the shares may be subscribed for in the form of money or nonmonetary assets (other than assets not entitled to be used as capital contributions under relevant laws and administrative regulations). For non-monetary assets to be used as capital contributions, appraisals must be carried out to ensure no overvaluation or under-valuation of the assets. There is no such restriction on a Hong Kong company under Hong Kong law.

Restrictions on Holding and Transfer of Shares

Under PRC law, our Domestic Shares, which are denominated and subscribed for in Renminbi, may only be subscribed for and traded by the State, PRC legal persons or natural persons, or other investors as permitted by laws and regulations. Overseas listed shares, which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau or Taiwan or any country and territory outside the PRC, or other investors entitled to hold overseas listed shares pursuant to relevant PRC laws and regulations, or upon approval by any competent authorities.

Under the PRC Company Law, a promoter of a joint stock limited company is not allowed to transfer the shares it holds for a period of one year after the date of establishment of the company. Shares in issue prior to the company's public offering cannot be transferred within one year from the listing date of the shares on the stock exchange. Shares held by its directors, supervisors and senior management transferred each year during their term of office shall not exceed 25% of the total shares they held, and the shares they held in the company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after such person has left office. The articles of association may set other restrictive requirements on the transfer of the company's shares held by its directors, supervisors and senior management. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law apart from six-month lockup on the company's issue of shares and the 12-month lockup on controlling shareholders' disposal of shares.

Financial Assistance for Acquisition of Shares

The PRC Company Law does not prohibit or restrict a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. However, the Mandatory Provisions contain certain restrictions on a company and its subsidiaries on providing such financial assistance for acquisition of shares similar to those under the Hong Kong company law.

Variation of Class Rights

The PRC Company Law has no special provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarized in Appendix V—"Summary of Articles of Association" to this prospectus.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question, (iii) by unanimous consent of all shareholders of the company or (iv) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

Directors

The PRC Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration of directors' interests in material contracts, restrictions on directors' authority in making major disposals, restrictions on companies providing certain benefits to directors and guarantees in respect of directors' liability and prohibitions against compensation for loss of office without shareholders' approval. The Mandatory Provisions, however, contain certain restrictions on major disposals and specify the circumstances under which a director may receive compensation for loss of office.

Supervisory Board

Under the PRC Company Law, a joint stock limited company's directors and members of the senior management are subject to the supervision of supervisory board. There is no mandatory requirement for the establishment of supervisory board for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Derivative Action by Minority Shareholders

Hong Kong law permits minority shareholders to initiate a derivative action on behalf of all shareholders against directors who have committed a breach of their fiduciary duties to the company if the directors control a majority of votes at a general meeting, thereby effectively preventing a company from suing the directors in breach of their duties in its own name. The PRC Company Law provides shareholders of a joint stock limited company with the right so that in the event where the directors and senior management violate their fiduciary obligations to a company, the shareholders individually or jointly holding more than 1% of the shares in the company for more than 180 consecutive days may request in writing the supervisory board to initiate proceedings in the people's court. In the event that the supervisory board violates their fiduciary obligations to company, the above said shareholders may send written request to the board of directors to initiate proceedings in the people's court. Upon receipt of such written request from the shareholders, if the supervisory board or the board of directors refuses to initiate such proceedings, or has not initiated proceedings within 30 days upon receipt of the request, or if under urgent situations, failure of initiating immediate proceeding may cause irremediable damages to the company, the above said shareholders shall, for the benefit of the company's interests, have the right to initiate proceedings directly to the people's court in their own name.

The Mandatory Provisions provide further remedies against the directors, supervisors and senior management who breach their duties to the company. In addition, as a condition to the listing of shares on the Hong Kong Stock Exchange, each director and supervisor of a joint stock limited company is required to give an undertaking in favor of the company acting as agent for the shareholders. This allows minority shareholders to take action against directors and supervisors in default.

Protection of Minorities

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to the court to either wind up the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary of Hong Kong may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The PRC law does not contain similar safeguards. The Mandatory Provisions, however, contain provisions that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the shareholders generally or of a proportion of the shareholders of a company to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders.

Notice of Shareholders' General Meetings

Under the PRC Company Law, notice of a shareholders' annual general meeting must be given not less than 20 days before the meeting. Under the Special Regulations and the Mandatory Provisions, at least 45 days' written notice must be given to all shareholders and shareholders who wish to attend the meeting must reply in writing at least 20 days before the date of the meeting. For a company incorporated in Hong Kong, the minimum period of notice of a general meeting, where convened for the purpose of considering ordinary resolutions, is 14 days and , where convened for the purpose of considering special resolutions, is 21 days. The notice period for an annual general meeting is 21 days.

Quorum for Shareholders' General Meetings

Under Hong Kong law, the quorum for a general meeting must be at least two members unless the articles of association of the company otherwise provide. For companies with only one member, the quorum must be one member. The PRC Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Regulations and the Mandatory Provisions provide that general meetings may only be convened when replies to the notice of that meeting have been received from shareholders whose shares represent at least 50% of the voting rights at least 20 days before the proposed date of the meeting, or if that 50% level is not achieved, the company shall within five days notify its shareholders again by way of a public announcement and the shareholders' general meeting may be held thereafter.

Voting

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of no less than three-fourths of votes cast by members present in person or by proxy at a general meeting. Under the PRC Company Law, the passing of any resolution requires affirmative votes of shareholders representing more than half of the voting rights represented by the shareholders who attend the general meeting except in cases of proposed amendments to a company's articles of association, increase or decrease of registered capital, merger, division or dissolution, or change of corporation form, which require affirmative votes of shareholders representing more than two-thirds of the voting rights represented by the shareholders who attend the general meeting.

Financial Disclosure

Under the PRC Company Law, a joint stock limited company is required to make available at the company for inspection by shareholders its financial and accounting report 20 days before its shareholders' annual general meeting. In addition, a joint stock limited company of which the shares are publicly offered must publish its financial and accounting report. The Companies Ordinance requires a company incorporated in Hong Kong to send to every shareholder a copy of its balance sheet, auditors' report and directors' report, which are to be presented before the company in its annual general meeting, not less than 21 days before such meeting. A joint stock limited liability company is required under the PRC law to prepare its financial statements in accordance with the PRC GAAP. The Mandatory Provisions require that a company must, in addition to preparing financial statements according to the PRC GAAP, have its financial statements prepared and audited in accordance with international or accounting standards of the overseas places where the shares are listed and its financial statements must also contain a statement of the material differences (if any) from the financial statements prepared in accordance with the PRC GAAP.

The Special Regulations require that there should not be any contradiction between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

Information on Directors and Shareholders

The PRC Company Law gives shareholders the right to inspect the company's articles of association, minutes of the shareholders' general meetings and financial and accounting reports. Under the articles of association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors which is similar to the shareholders' rights of Hong Kong companies under Hong Kong law.

Receiving Agent

Under the PRC Company Law and Hong Kong law, dividends once declared are debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while under the PRC law this limitation period is two years. The Mandatory Provisions require the relevant company to appoint a trust company registered under the Hong Kong Trustee Ordinance

(Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of overseas listed foreign shares dividends declared and all other monies owed by the company in respect of its shares.

Corporate Reorganization

Corporate reorganization involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of voluntary winding up to another company pursuant to Section 237 of the Companies Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to Section 673 of the Companies Ordinance, which requires the sanction of the court. Under PRC law, merger, division, dissolution or change the form of a joint stock limited liability company has to be approved by shareholders in general meeting.

Dispute Arbitration

In Hong Kong, disputes between shareholders on the one hand, and a company incorporated in Hong Kong or its directors on the other hand, may be resolved through legal proceedings in the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC, at the claimant's choice.

Mandatory Deductions

Under the PRC Company Law, a joint stock limited liability company is required to make transfers equivalent to certain prescribed percentages of its after tax profit to the statutory common reserve fund. There are no corresponding provisions under Hong Kong law.

Remedies of the Company

Under the PRC Company Law, if a director, supervisor or senior management in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or senior management should be responsible to the company for such damages. In addition, the Listing Rules require listed companies' articles to provide for remedies of the company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits from a director, supervisor or senior management).

Dividends

The company has the power in certain circumstances to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. The company must not exercise its powers to forfeit any unclaimed dividend in respect of shares until after the expiry of the applicable limitation period.

Fiduciary Duties

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the PRC Company Law and the Mandatory Provisions, directors and supervisors are not permitted to engage in any activities which compete with or damage the interests of their company.

Closure of Register of Shareholders

The Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days under certain circumstances) in a year, whereas, as required by the Mandatory Provisions, share transfers shall not be registered within 30 days before the date of a shareholders' general meeting or within five days before the base date set for the purpose of distribution of dividends.

LISTING RULES

The Listing Rules provide additional requirements which apply to us as an issuer incorporated in the PRC as a joint stock limited company and seeking a primary listing or whose primary listing is on the Hong Kong Stock Exchange. Set out below is a summary of the principal provisions containing the additional requirements which apply to us.

Compliance Advisor

A company seeking listing on the Hong Kong Stock Exchange is required to appoint a compliance advisor acceptable to the Hong Kong Stock Exchange for the period from its listing date up to the date of the publication of its financial results for the first full financial year commencing after the listing date. The compliance advisor should provide professional advice on continuous compliance with the Listing Rules and all other applicable laws and regulations, and to act at all times, in addition to its two authorized representatives, as the principal channel of communication with the Hong Kong Stock Exchange. The appointment of the compliance advisor may not be terminated until a replacement acceptable to the Hong Kong Stock Exchange has been appointed.

If the Hong Kong Stock Exchange is not satisfied that the compliance advisor is fulfilling its responsibilities adequately, it may require the company to terminate the compliance advisor's appointment and appoint a replacement.

The compliance advisor must keep the company informed on a timely basis of changes in the Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the company. It must act as the company's principal channel of communication with the Hong Kong Stock Exchange if the authorized representatives of the company are expected to be frequently outside Hong Kong.

Accountants' Report

The accountants' report must normally be drawn up in conformity with: (a) HKFRS; or (b) IFRS; or (c) China Accounting Standards for Business Enterprises ("CASBE") in the case of a PRC issuer that has adopted CASBE for the preparation of its annual financial statements.

Process Agent

A listed company is required to appoint and maintain a person authorized to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the Hong Kong Stock Exchange and must notify the Hong Kong Stock Exchange of his, her or its appointment, the termination of his, her or its appointment and his, her or its contact particulars.

Public Shareholding

If at any time there are existing issued securities of a PRC issuer other than foreign shares which are listed on the Hong Kong Stock Exchange, the Listing Rules require that the aggregate amount of H shares and other securities held by the public must constitute not less than 25% of the PRC issuer's issued share capital and that the class of securities for which listing is sought must not be less than 15% of the issuer's total issued share capital, having an expected market capitalization at the time of listing of not less than HK$50 million. The Hong Kong Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% if the issuer is expected to have a market capitalization at the time of listing of more than HK$10,000 million.

Independent Non-Executive Directors and Supervisors

Independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the listed company's general body of shareholders will be adequately represented. Supervisors must have the character, expertise and integrity and be able to demonstrate the standard of competence commensurate with their position as supervisors.

Restrictions on Repurchase of Securities

Subject to governmental approvals and the articles of association of the company, a listed company may repurchase its own shares on the Hong Kong Stock Exchange in accordance with the provisions of the Listing Rules. Approval by way of a special resolution of the holders of class shares at separate class meetings conducted in accordance with the articles of association is required for share repurchases. In seeking approvals, a listed company is required to provide information on any proposed or actual purchases of all or any of its equity securities, whether or not listed or traded on the Hong Kong Stock Exchange. The director must also state the consequences (if any) of any purchases which will arise under either or both of the Hong Kong Takeovers Code and/or any similar PRC law of which directors are aware. Any general mandate given to directors to repurchase shares must not exceed 10% of the total number of its issued shares.

Redeemable Shares

A listed company must not issue any redeemable shares unless the Hong Kong Stock Exchange is satisfied that the relative rights of its shareholders are adequately protected.

Pre-emptive Rights

Except in the circumstances mentioned below, directors are required to obtain approval by way of a special resolution of shareholders at general meeting, and the approvals by way of special resolutions of the holders of class shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with and as required by the articles of association, prior to authorizing, allotting, issuing or granting shares or securities convertible into shares, options, warrants or similar rights to subscribe for any shares or such convertible securities.

No such approval will be required under the Listing Rules to the extent that (i) the existing shareholders have by special resolution in general meeting given a mandate to the board of directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorize, allot or issue, either separately or concurrently once every 12 months, not more than 20% of each of the existing issued domestic shares and H shares as of the date of the passing of the relevant special resolution, or (ii) such shares are issued as part of the Company's plan at the time of its establishment to issue domestic shares and H shares and which plan is implemented within 15 months from the date of approval by the securities regulatory authority of the State Council.

Supervisors

A company listed or seeking a listing on the Hong Kong Stock Exchange is required to adopt rules governing dealings by the Supervisors in securities of our Company in terms no less exacting than those of the model code (set out in Appendix 10 to the Listing Rules) issued by the Hong Kong Stock Exchange.

A PRC issuer is required to obtain the approval of its shareholders at a general meeting (at which the relevant supervisor and his associates must abstain from voting on the matter) prior to the company or any of its subsidiaries entering into a service contract of the following nature with a supervisor or proposed supervisor of the listed company or any of its subsidiaries: (1) the term of the contract exceeds three years; or (2) the contract expressly requires the company (or its subsidiaries) to give more than one year's notice or to pay compensation or make other payments equivalent to the remuneration more than one year in order for it to terminate the contract.

The nomination and remuneration committee of the listed company or an independent board committee must form a view in respect of service contracts that require shareholders' approval and advise shareholders (other than shareholders with a material interest in the service contracts and their associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of the listed company and its shareholders as a whole and advise shareholders on how to vote.

Amendment to Articles of Association

A PRC issuer may not permit or cause any amendment to be made to its articles of association which would contravene the PRC Company Law, the Mandatory Provisions and the Listing Rules.

Documents for Inspection

A PRC issuer is required to make available at a place in Hong Kong for inspection by the public and shareholders free of charge, and for copying by its shareholders at reasonable charges of the following:

- a complete duplicate register of shareholders;
- a report showing the state of its issued share capital;

- its latest audited financial statements and the reports of the directors, auditors and supervisors, if any, thereon;
- special resolutions;
- reports showing the number and nominal value of securities repurchased by it since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between class shares); and
- for shareholders only, copies of minutes of shareholders' general meetings.

Receiving Agents

Under Hong Kong law, a PRC issuer is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owed in respect of the H shares to be held, pending payment, in trust for the holders of such H shares.

Statements in Share Certificates

A PRC issuer is required to ensure that all of its listing documents and share certificates include the statements stipulated below and to instruct and cause each of its share registrars not to register the subscription, purchase or transfer of any of its shares in the name of any particular holder unless and until such holder delivers to the share registrar a signed form in respect of such shares bearing statements to the following effect, that the acquirer of shares:

- agrees with the company and each shareholder, and it agrees with each shareholder, to observe and comply with the PRC Company Law, the Special Regulations and its articles of association;
- agrees with the company, each shareholder, director, supervisor, manager and other senior management and it (acting both for the company and for each director, supervisor, manager and other senior management), agree with each shareholder to refer all differences and claims arising from the articles of association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning its affairs to arbitration in accordance with the articles of association. Any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;
- agrees with the company and each shareholder that shares are freely transferable by the holder thereof; and
- authorizes the company to enter into a contract on his behalf with each director and senior management whereby such directors and senior management undertake to observe and comply with their obligations to shareholders as stipulated in the articles of association.

Legal Compliance

A PRC issuer is required to observe and comply with the PRC Company Law, the Special Regulations and its articles of association.

Contract between the PRC Issuer and Directors, Senior Management and Supervisors

A PRC issuer is required to enter into a contract in writing with every director and senior management containing at least the following provisions:

- an undertaking by the director or senior management to itself to observe and comply with the PRC Company Law, the Special Regulations, its articles of association, the Hong Kong Takeovers Code and an agreement that it must have the remedies provided in its articles of association and that neither the contract nor his office is capable of assignment;
- an undertaking by the director or senior management to it acting as agent for each shareholder to observe and comply with his obligations to our shareholders as stipulated in the articles of association; and
- an arbitration clause which provides that whenever any differences or claims arise from the contract, its articles of association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant law and administrative regulations concerning affairs between us and its directors or senior management and between a holder of H shares and a director or senior management, such differences or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party shall submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive. If the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen, according to the Securities Arbitration Rules of the HKIAC. PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations. The award of the arbitral body is final and shall be binding on the parties thereto. Disputes over who is a shareholder and over the share register do not have to be resolved through arbitration.

A PRC issuer is also required to enter into a contract in writing with every supervisor containing statements in substantially the same terms.

Subsequent Listing

A PRC issuer must not apply for the listing of its H shares on a PRC stock exchange unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of its H shares are adequately protected.

English Translation

All notices or other documents required under the Listing Rules to be sent by a PRC issuer to the Hong Kong Stock Exchange or to holders of the H Shares are required to be in English, or accompanied by a certified English translation.

General

If any change in the PRC law or market practices materially alters the validity or accuracy of any basis upon which the additional requirements have been prepared, the Hong Kong Stock Exchange may impose additional requirements or make listing of H shares by a PRC issuer subject to special conditions as the Hong Kong Stock Exchange may consider appropriate. Whether or not any such changes in the PRC law or market practices occur, the Hong Kong Stock Exchange retains its general power under the Listing Rules to impose additional requirements and make special conditions in respect of any company's listing.

OTHER LEGAL AND REGULATORY PROVISIONS

Upon the listing on the Hong Kong Stock Exchange, the provisions of the SFO, the Hong Kong Takeovers Code and such other relevant ordinances and regulations will apply to a PRC issuer.

SECURITIES ARBITRATION RULES

The Securities Arbitration Rules of the HKIAC contain provisions allowing, upon application by any party, an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Hong Kong Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties, including witnesses and the arbitrators, being permitted to enter Shenzhen for the purpose of the hearing. Where a party, other than a PRC party, or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

Any person wishing to have detailed advice on PRC law or the laws of any jurisdiction is recommended to seek independent legal advice.

Set out below is a summary of the principal provisions of our Articles of Association, the principal objective of which is to provide investors with an overview of our Articles of Association.

As the information contained below is in summary form, it does not contain all the information that may be important to potential investors. Copies of the full English and Chinese texts of our Articles of Association are available for inspection as mentioned in Appendix VIII—"Documents Delivered to the Registrar of Companies and Available for Inspection".

Our Articles of Association were adopted by our Shareholders in the Shareholders' general meeting held on April 10, 2015 and were approved by CBRC Qingdao Office on May 18, 2015. Our Articles of Association will become effective on the date that our H Shares are listed on the Hong Kong Stock Exchange.

CLASSES OF SHARES

Shareholders holding different types of Shares shall be Shareholders of different classes.

Shareholders of different classes shall enjoy the rights and assume the obligations stipulated by laws, administrative regulations and our Articles of Association.

Except shareholders holding other types of Shares, Shareholders holding Domestic Shares and Shareholders holding overseas-listed Shares are considered as Shareholders of different classes.

Shareholders of different classes shall enjoy the same rights in any distribution in the form of dividends or any other form.

DIRECTORS AND OTHER SENIOR MANAGEMENT

Power to Allot and Issue Shares

There is no provision in our Articles of Association empowering the Directors to allot and issue Shares.

To increase the registered capital of our Bank, the proposal must be submitted for approval by special resolution of the Shareholders' general meeting. Any such increase is subject to approval of relevant regulatory authorities.

Power to Dispose of the Assets of Our Bank or Any Subsidiary Banks (Subsidiary Companies)

The Board shall not, without the prior approval of Shareholders in a Shareholders' general meeting, dispose of, or agree to dispose of, any fixed assets of our Bank where the sum of the estimated value of consideration for the proposed disposition and the aggregate amount of consideration for all dispositions of fixed assets of our Bank completed within four months immediately preceding the proposed disposition exceed 33% of the value of our Bank's fixed assets as shown on the last balance sheet reviewed at a Shareholders' general meeting.

The validity of a disposition by our Bank of fixed assets shall not be affected by the breach of the above paragraph.

For the purposes of our Articles of Association, a disposition of fixed assets includes an act involving the transfer of an interest in such assets, but does not include the provision of such assets as a form of security.

EMOLUMENTS AND COMPENSATION OR PAYMENT FOR LOSS OF OFFICE

The emoluments of the Directors shall be subject to the approval of Shareholders' general meeting. Our Bank shall, with the prior approval at a Shareholders' general meeting, enter into a contract in writing with each of the Directors or Supervisors in terms of his/her emoluments. The aforesaid emoluments include:

(a) emoluments in respect of his/her service as a Director, a Supervisor or senior management of our Bank;

(b) emoluments in respect of his/her service as a Director, a Supervisor or senior management of our subsidiary banks (subsidiary companies);

(c) emoluments in respect of other services in connection with the management of our Bank and our subsidiary banks (subsidiary companies); and

(d) compensation for his/her loss of office as a Director or Supervisor or retirement.

Unless in accordance with the aforesaid contracts, no proceedings may be brought by a Director or Supervisor against our Bank for any benefit due to him in respect of the above matters.

Contracts concerning emoluments between our Bank and our Directors or Supervisors should provide that, in the event of a takeover of our Bank, the Directors or Supervisors shall, subject to the prior approval of the Shareholders in a Shareholders' general meeting, have the right to receive compensation or other payments in respect of loss of office or retirement. A "takeover of our Bank" referred to above means either:

(a) an offer made by any person to all Shareholders; or

(b) an offer made by any person with a goal of becoming "controlling shareholder" within the meaning set out in our Articles of Association.

If the relevant Director or Supervisor does not comply with the preceding provision, any sum so received by him/her shall belong to those persons who have sold their Shares as a result of the said offer. The expenses incurred in distributing such sum pro rata amongst those persons shall be borne by the relevant Director or Supervisor and shall not be paid out of the sum to be received by him/her.

LOANS TO DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Our Bank may not provide loans or loan guarantees directly or indirectly to a Director, Supervisor, or senior management of our Bank and our parent company, nor shall we provide the same to their related persons.

The preceding provision will not apply to the following circumstances:

(a) our Bank provides loans or loan guarantees to our subsidiary banks (subsidiary companies);

(b) our Bank provides loans, loan guarantees or other payment to our Directors, Supervisors or senior management to meet expenditure incurred by him/her for the purposes of our

Bank or his/her fulfillment of the responsibilities, in accordance with the contract of service approved by a Shareholders' general meeting; and

(c) our Bank may provide loans or loan guarantees to relevant Directors, Supervisors, senior management and their related persons, provided that the terms and conditions of such loans or loan guarantees are based on normal commercial terms.

A loan made by our Bank in breach of the above provisions shall be repayable forthwith by the recipient of the loan regardless of the terms of the loan.

A loan guarantee made by our Bank in breach of the above provisions shall not be enforceable on our Bank, with the following exceptions:

(a) The lender is unaware about actual situation when a loan is extended to related persons of Directors, Supervisors and senior management of our Bank or our parent company; and

(b) Collaterals provided by our Bank have legally been sold to a bona fide purchaser.

FINANCIAL ASSISTANCE FOR THE ACQUISITION OF SHARES IN OUR BANK

Our Bank or our subsidiary banks (subsidiary companies) shall not, by any means at any time, provide any kind of financial assistance to purchasers or prospective purchasers in respect of his/her/its conduct of acquiring or proposing to acquire Shares of our Bank. Such purchasers as mentioned above shall include those who directly or indirectly assume any obligations due to the acquisition of Shares. Our Bank or our subsidiary banks (subsidiary companies) shall not, by any means at any time, provide financial assistance to such purchasers for the purpose of reducing or discharging the obligations assumed by that person due to their purchase or intention of purchase.

The "financial assistance" shall include but is not limited to the following:

(a) gifts;

(b) guarantee (including the assumption of liability by the guarantor or the provision of assets by the guarantor to secure the performance of obligations by the obligor), compensation (other than the compensation in respect of our Bank's own default) or release or waiver of any rights;

(c) provision of loan or any other contract under which the obligations of our Bank are to be fulfilled before the obligations of another party, or a change in the parties to, or the assignment of rights arising under, such loan or contract; or

(d) any other form of financial assistance given by our Bank when we are insolvent or have no net assets or when our net assets would thereby be reduced to a material extent.

The "obligations" herein referred to shall include the obligations of the obligator by signing a contract or making an arrangement (whether legally enforceable or not, and whether or not such obligations are assumed by the obligator individually or jointly with any other person), or changing its financial condition in any other way.

The following activities shall not be deemed to be prohibited by our Articles of Association, except those prohibited by relevant laws, administrative regulations, departmental rules and statutory documents:

(a) the provision of financial assistance by our Bank where the financial assistance is given in good faith in the interest of our Bank, and the principal purpose is not for the acquisition of our shares, or the giving of financial assistance is an incidental part of a major plan of our Bank;

(b) lawful distribution of our Bank's assets through dividends;

(c) the allotment of bonus shares as dividends;

(d) a reduction of registered capital, a repurchase of shares or an adjustment of the share capital structure of our Bank effected in accordance with our Articles of Association;

(e) the lending of money by our Bank within its scope of business and in the ordinary course of business (provided that the net assets of our Bank are not thereby reduced or that, to the extent that the net assets are thereby reduced, the financial assistance is provided out of distributable profits of our Bank); and

(f) the provision of funds by our Bank for contributions to an employees' shareholding plan (provided that the net assets of our Bank are not thereby reduced or, to the extent that the net assets are thereby reduced, the financial assistance is provided out of distributable profits of our Bank).

DISCLOSURE OF INTERESTS IN CONTRACTS WITH OUR BANK

Where a Director or any of his/her associates (as defined in the Listing Rules), Supervisor or senior management of our Bank is directly or indirectly, materially interested in a contract, transaction or arrangement, or proposed contract, transaction or arrangement, with our Bank (other than his/her service contract with our Bank), he/she shall declare the nature and extent of his/her interests to the Board at the earliest opportunity, regardless of whether such matter is under normal circumstances subject to the approval of the Board.

Unless the interested Director, Supervisor or senior management discloses his/her interests to the Board in accordance with the aforesaid requirements and the Board has approved it at a meeting in which the interested Director, Supervisor, senior management is not counted towards the quorum and abstained from voting, such contract, transaction or arrangement is voidable at the request of our Bank except where the counterparty is a bona fide party without notice of the violation of obligations by the interested Director, Supervisor or senior management.

Our Directors, Supervisors and senior management shall be treated as interested parties where their related persons are interested in a certain contract, transaction or arrangement.

If a Director, Supervisor or senior management of our Bank gives written notice to the Board and Board of Supervisors before the date on which the conclusion of the relevant contract, transaction or arrangement is first taken into consideration by our Bank declaring that, by reason of the facts specified in the notice, he/she is interested in such contract, transaction or arrangement to be entered into subsequently by our Bank, such Director, Supervisor and senior management shall be deemed to have made such disclosure as stipulated above to the extent as stated in such notice.

APPOINTMENT, REMOVAL AND RETIREMENT

The qualification of a Director shall be examined and approved by the banking regulatory authorities of the State Council. Directors shall be elected and replaced by the Shareholders' general meeting, whose term of office shall be three years, and may serve consecutive terms if reelected upon the expiration of his/her term of office. Candidates for directors shall be nominated by the nomination committee of the Board or the Shareholder(s) individually or in aggregate holding 3% or more of total shares of our Bank with voting rights.

The same Shareholder and his/her/its related parties shall not nominate the candidates for director and supervisor concurrently. If such candidate for Director (Supervisor) as nominated by the same Shareholder and his/her/its related parties has served as Director (Supervisor), such Shareholder shall not nominate another candidate for Supervisor (Director) until the expiry of his/her term of office or the change of his/her position. In principle, the number of Directors nominated by the same shareholder and his/her/its related parties shall not exceed one-third of the total number of members of the Board, unless otherwise stipulated by the national laws.

Candidates for independent Directors shall be nominated by the Nomination Committee of our Board, the Board of Supervisors and Shareholder(s) individually or in the aggregate holding 1% or more of total shares of our Bank with voting rights to the Board and shall be elected by the Shareholders' general meeting. A Shareholder who has already nominated candidate for Director shall not renominate independent Director. The term of office of an independent Director is the same as that of other Directors of our Bank, who may serve consecutive terms if reelected upon the expiration of his/her term. The successive term of office of an independent Director in our Bank shall not exceed six years.

The Board shall consist of five to 19 Directors, of which at least one-third (and no less than three in number) shall be independent Directors. The Board shall have one Chairman and may have Vice Chairmen. The Chairman and Vice Chairmen shall be elected by a majority of all Directors.

The validity of an act of a Director and senior management acting on behalf of our Bank against a bona fide third party is not affected by any irregularity in his/her office, election or any defect in his/her qualification.

BORROWING POWERS

Our Articles of Association do not specifically provide for the manner in which borrowing powers may be exercised nor do they contain any specific provision in respect of the manner in which such borrowing powers may be amended, except for:

(a) provision which provides that the Board shall formulate proposals for the issuance of debentures or other securities by our Bank and public listing plans; and

(b) provision which provides that the issuance of debentures or other marketable securities and listing shall be approved by the Shareholders' general meeting by a special resolution.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF OUR BANK

For any amendments to our Articles of Association, the Board shall propose the plan on amendments, which are subject to approval by special resolution of the Shareholders' general meeting. If the amendments are subject to approval by relevant regulatory authorities, such approval shall be obtained. Where registration is necessary for the amendments, such registration shall be carried out in compliance with the relevant laws.

CHANGE OF RIGHTS OF EXISTING SHARES OR CLASSES OF SHARES

Rights conferred on any class of Shareholders may not be varied or abrogated unless approved by a special resolution of Shareholders in a Shareholders' general meeting and by the affected Shareholders of that class at a separate Shareholders' general meeting convened in accordance with our Articles of Association.

The rights of Shareholders of a certain class shall be deemed to have been changed or abrogated in the following circumstances:

(a) an increase or decrease in the number of Shares of such class, or an increase or decrease in the number of class Shares having voting or distribution rights or other privileges equal or superior to those of the Shares of such class;

(b) an change of all or part of the Shares of such class into Shares of another class, a conversion of all or part of the Shares of another class into the Shares of such class or the grant of the right to such change;

(c) a removal or reduction of rights to accrued dividends or cumulative dividends attached to Shares of such class;

(d) a reduction or removal of preferential rights attached to Shares of such class to receive dividends or the distribution of properties during liquidation of our Bank;

(e) an addition, removal or reduction of share conversion rights, options, voting rights or transfer or pre-emptive rights to rights issue or rights to obtain securities of our Bank attached to shares of such class;

(f) a removal or reduction of rights to receive amounts payable by our Bank in particular currencies attached to shares of such class;

(g) a creation of a new class of Shares with voting or distribution rights or other privileges equal or superior to those of the Shares of such class;

(h) an imposition of restrictions or additional restrictions on the transfer or ownership of the Shares of such class;

(i) an issuance of rights to subscribe for, or to convert into, Shares of such class or another class;

(j) an increase in the rights and privileges of Shares of another class;

(k) restructuring of our Bank where the proposed restructuring will result in the disproportionate distribution of obligations among various classes of Shareholders; and

(l) an amendment or abrogation of the provisions of "special procedures for voting by class Shareholders" as contained in our Articles of Association.

Interested Shareholders shall not be entitled to vote at class Shareholders' meeting. "Interested Shareholders" shall have the following meanings:

(a) in the case of a repurchase of Shares by offers to all Shareholders on the same pro rata basis or through public trading on a stock exchange by our Bank in accordance with our Articles of Association, "interested Shareholders" refers to the controlling shareholder(s) as defined in our Articles of Association;

(b) in the case of a repurchase of shares by a negotiated contract outside of any stock exchange by our Bank in accordance with our Articles of Association, "interested shareholders" refers to the Shareholders concerned with such contract; and

(c) in the case of a restructuring of our Bank, "interested shareholders" refers to those Shareholders who assume responsibilities with smaller proportion than other Shareholders of the same class or who enjoy different interests from other Shareholders of the same class.

Resolutions of class Shareholders' meetings shall be passed by two-thirds or more of the voting rights of that class present at the meeting.

The special procedures for voting by Shareholders of different classes shall not apply to the following circumstances:

(a) where our Bank issues domestic shares and overseas-listed shares, upon the approval of a special resolution by a Shareholders' general meeting, either separately or concurrently once every 12 months, and the domestic listed shares and overseas-listed shares to be issued do not exceed 20% of the issued shares of the respective categories;

(b) where the plan to issue domestic shares and overseas-listed shares at the time of the establishment of our Bank is accomplished within 15 months from the date of approval of the securities regulatory authorities of the State Council; or

(c) where our Shareholders of domestic shares have their unlisted shares converted into overseas-listed shares as well as listed and traded on an overseas stock exchange, upon the approval by the banking regulatory authorities of the State Council, the securities regulatory authorities of the State Council and other relevant regulatory authorities.

ALTERATION OF REGISTERED CAPITAL

Increase of Registered Capital

Our Bank may, based on its needs for operation and development and in accordance with applicable laws and administrative regulations, increase its registered capital in the following ways upon resolution at the Shareholders' general meeting and subject to approval by relevant regulatory authorities:

(a) public offering of shares;

(b) non-public offering of shares;

(c) placing new shares to its existing shareholders;

(d) issuing bonus shares to its existing shareholders;

(e) capitalizing its capital reserve; and

(f) any other means permitted by the applicable laws, administrative regulations and relevant regulatory authorities.

Any increase of capital by issuing new Shares shall, after being approved in accordance with the provisions of our Articles of Association, be conducted in accordance with the procedures stipulated by the applicable laws and administrative regulations.

Reduction of Registered Capital

Our Bank may reduce its registered capital in accordance with our Articles of Association upon approval of relevant regulatory authorities. The reduction of the registered capital shall be handled in accordance with the procedures stipulated by the PRC Company Law, the PRC Commercial Banking Law and other relevant regulations as well as provisions of our Articles of Association.

Our Bank must prepare a balance sheet and a list of assets when we are to reduce our registered capital.

Our Bank shall notify our creditors within 10 days of adopting the resolution to reduce our registered capital and shall publish an announcement of the resolution in the newspapers within 30 days. Creditors shall, within 30 days of receiving a written notice or within 45 days since the date of the announcement for those who have not received a written notice, be entitled to require us to pay our debts or to provide a corresponding guarantee for repayment.

The registered capital of our Bank upon reduction may not be less than the statutory minimum.

RESOLUTIONS—MAJORITY REQUIRED

Resolutions of Shareholders' general meetings shall be divided into ordinary resolutions and special resolutions.

To adopt an ordinary resolution, votes representing more than half of the voting rights represented by the Shareholders (including shareholders' proxies) present at the meeting must be exercised in favor of the resolution.

To adopt a special resolution, votes representing two-thirds or more of the voting rights represented by the Shareholders (including shareholders' proxies) present at the meeting must be exercised in favor of the resolution.

The following matters shall be decided by an ordinary resolution at a Shareholders' general meeting:

(a) business policies and investment plans of our Bank;

(b) work reports of the Board and the Board of Supervisors;

(c) plans proposed by the Board for the profit distribution and for the making up of losses;

(d) appointment and removal of the members of the Board and members of the Board of Supervisors, their emoluments and payment thereof;

(e) the proposed annual budgets and final accounts of our Bank;

(f) engagement or dismissal of accounting firms; and

(g) other matters unless required to be approved by special resolutions in accordance with the applicable laws, administrative regulations, departmental rules, statutory documents or our Articles of Association.

The following matters shall be decided by a special resolution at a Shareholders' general meeting:

(a) the increase or decrease of our registered capital and the issuance of shares of any class, warrants for share subscription and other similar securities;

(b) the issuance of debentures or other marketable securities and listing;

(c) any acquisition or disposal of our material assets, or provision of guaranty where the amount exceeds 30% of the total amount of our Bank's assets within one year;

(d) the approval of setup of legal persons, material acquisition and merger, material investment, material write-off of assets, and material purchase of assets, material disposal of assets, material external guarantee other than those stipulated in (c) or to authorize the Board to approve such matters;

(e) the separation, merger, dissolution and liquidation, or change of corporate form of our Bank;

(f) amendments to our Articles of Association;

(g) repurchase the shares of our Bank; and

(h) any other matters prescribed by laws, administrative regulations, department rules, statutory documents or our Articles of Association, or resolved by the Shareholders at a Shareholders' general meeting by an ordinary resolution that are significant to our Bank and should be adopted by a special resolution.

VOTING RIGHTS

All the Shareholders recorded in the register of members on the record date or their proxies are entitled to attend the Shareholders' general meeting. Shareholders (including their proxies) shall exercise their voting rights according to the number of voting shares, with each share representing one voting right.

Shares held by our Bank have no voting rights, and will not be counted toward the total voting shares present in the Shareholders' general meeting.

At any Shareholders' general meeting, a resolution shall be decided on a named poll except where the chairman of the meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.

On a poll taken at a meeting, a Shareholder (including Shareholders' proxy) entitled to two or more votes do not necessarily cast all his/her/its votes in the same way (for/against/abstain).

REQUIREMENT FOR GENERAL MEETINGS

Shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. An annual general meeting shall be convened within six months of the close of a preceding fiscal year. If the meeting has to be postponed due to special reasons, it shall be reported to the banking regulatory authorities of the State Council in time with the reasons stated and make announcement thereof.

Our Bank shall convene an extraordinary general meeting within two months upon the occurrence of any of the following:

(a) when the number of Directors is less than the quorum as specified by the PRC Company Law, or two-thirds of the number of Directors specified in our Articles of Association;

(b) when the unrecovered losses of our Bank amount to one-third of the total amount of our share capital;

(c) when such meeting is requested in writing by Shareholder(s) holding individually or in aggregate 10% or more of our Bank's voting shares, the number of shares held shall be decided as of the date when the written request is submitted;

(d) when the Board deems it necessary;

(e) when such meeting is proposed by the Board of Supervisors;

(f) when such meeting is requested by more than half of the independent Directors (and at least two independent Directors); or

(g) other situations as prescribed by laws, administrative regulations, department rules or our Articles of Association.

ACCOUNTS AND AUDIT

Our Bank shall establish our financial and accounting system in accordance with the laws, administrative regulations and rules stipulated by the competent financial departments of the State Council.

The Board shall submit to the shareholders at every annual general meeting the financial reports prepared by our Bank as required by the relevant laws, administrative regulations, departmental rules and statutory documents.

Unless otherwise required by applicable laws, regulations or relevant listing rules, the financial statements of our Bank may, in addition to being prepared in accordance with PRC accounting standards and regulations, be prepared in accordance with either IFRS or the accounting standards of the overseas place where our Bank's shares are listed. If there is any material differences between the annual financial statements prepared in accordance with the two accounting standards, such differences shall be stated in a note to the annual financial statements. When our Bank is to distribute our after-tax profits, it may only distribute from the after-tax profits as shown in the above two financial statements, whichever is lower.

The annual financial report shall be prepared by our Bank after the end of each fiscal year while audited by accounting firms pursuant to applicable laws. Our Bank shall publish its financial report twice each fiscal year, i.e. publish the interim financial report within 60 days after the end of the first six months of each fiscal year and publish its annual financial report within 120 days after the end of the each fiscal year. Where there are specific provisions by the securities regulatory authorities in the listing place where our shares are listed in relation thereto, those provisions shall prevail.

NOTICE OF MEETINGS AND MATTERS TO BE CONSIDERED

When our Bank convenes a Shareholders' general meeting, written notice of the meeting shall be given 45 days before the date of the meeting to notify all the Shareholders in the share register of the matters to be considered and the date and the place of the meeting. A Shareholder who intends to attend the meeting shall deliver his/her/its written reply concerning the attendance of the meeting to our Bank 20 days before the date of the meeting.

Our Bank shall, based on written replies from the shareholders received 20 days before the date of the Shareholders' general meeting, calculate the number of voting shares represented by Shareholders who intend to attend the meeting. If the number of voting shares represented by the

Shareholders who intend to attend the meeting reaches half or more of our Bank's total voting shares, we may hold the meeting. Otherwise, our Bank shall within 5 days notify the Shareholders again by public notice of the matters to be considered, the place and the date for the meeting. Our Bank then may hold the meeting after the publication of such notice.

A notice of the Shareholders' general meeting must be in writing and shall include the following:

(a) the date, time, venue and duration of the meeting;

(b) matters and proposals to be considered at the meeting;

(c) provide such information and explanations as are necessary for the shareholders to exercise an informed judgment on the proposals in respect of the matters to be considered at the meeting. Without limiting the generality of the foregoing, where a resolution on merger, share repurchase, reorganization of share capital or other restructuring is proposed by our Bank, the terms of the proposed transaction must be provided in details together with the proposed contract, if any, and the cause and effect of such proposal must be properly explained;

(d) contain a disclosure of the nature and extent of any material interest of a Director, Supervisor, senior officers in the matters to be discussed at the meeting and the difference between the effect on his/her/its capacity as a Shareholder and the effect on other shareholders of the same class if such difference exists;

(e) contain the full text of any proposed special resolution to be passed at the meeting;

(f) contain a prominent statement that a Shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote on his/her/its behalf and there is no need for such proxy as a shareholder;

(g) specify the record date on which the Shareholders are eligible to attend the meeting;

(h) specify the time and place for lodging a proxy form for the meeting;

(i) list the name and the phone number of the permanent contact person of the meeting; and

(j) other requirements as stipulated by laws, administrative regulations, department rules, statutory documents, relevant regulatory authorities and our Articles of Association.

TRANSFER OF SHARES AND PLEDGE OF SHARES

Unless otherwise specified by the relevant laws, administrative regulations, the rules of the securities regulatory authorities where our Shares are listed, the fully paid-up shares of our Bank may be transferred freely without any lien attached. To transfer the Shares of our Bank, the transferor shall register with the local share registrar appointed by our Bank.

All the fully paid-up H Shares can be freely transferred in accordance with our Articles of Association. The Board may refuse to accept any transfer documents without giving explanation for such refusal unless the requirements stipulated in our Articles of Association are satisfied.

All transfers of H shares shall adopt written instruments of transfer in an ordinary or usual form or in any other form acceptable to the Board (including standard transfer form or other form of transfer as prescribed by the Hong Kong Stock Exchange from time to time). The instruments of transfer may be signed by hand or (where the transferor or transferee is a corporation) affixed by the company's seal. Where the transferor or transferee is a recognized clearing house (as defined by relevant regulations in accordance with Hong Kong laws from time to time) or its proxy, the instruments of transfer may be signed by hand or in a machine-imprinted format.

The transfer of our Shares shall comply with relevant provisions as stipulated by the banking regulatory authorities of the State Council and other regulatory authorities.

Our Bank shall not accept any pledge with our own shares as the subject matters.

Any Shareholder shall be in strict compliance with the laws and regulations, and the requirements of the regulatory authorities if any shares of our Bank are to be pledged for the benefits of his/her/its own or others. Also, such shareholder shall serve a prior notice to the Board.

Where a Shareholder who has representative(s) on the Board or the Board of Supervisors, or directly, indirectly or jointly holds or controls more than 2% of share capital or voting rights in our Bank pledges his/her/its equity interests in our Bank, an application shall be filed with the Board in advance, which shall state the basic information of the pledge including the reasons for the pledge, the number of shares involved, the term of pledge and the pledgees. Where the Board considers the pledge to be materially adverse to the stability of our Bank's shareholding structure, the corporate governance as well as the risk and control over related party transaction, the filing shall not be accepted.

The Director(s) nominated by a Shareholder proposing to pledge his/her/its shares in our Bank shall abstain from voting at the meeting of the Board at which such proposal is considered. Upon the registration of pledge of Shares, the Shareholders involved shall provide our Bank with the relevant information in relation to Shares with pledge in a timely manner, so as to facilitate our Bank's risk management and information disclosure compliance.

A Shareholder whose outstanding borrowing amount owed to our Bank exceeds the audited net equity interests held by him/her/its for the last fiscal year is prohibited from pledging his/her/its shares in our Bank.

Where a Shareholder pledges 50% or more of his/her/its shares in the Bank, the voting rights of such shareholder at the shareholders' general meetings, as well as the voting rights of the director(s) nominated by such shareholder at board meetings, shall be subject to restrictions.

POWER OF OUR BANK TO REPURCHASE OUR OWN SHARES

We may, in accordance with the requirements of laws, administrative regulations, department rules and our Articles of Association and subject to necessary approvals of the relevant national regulatory authorities, repurchase our issued shares under the following circumstances:

(a) for the reduction of our registered capital;

(b) when merging with another company that holds shares in our Bank;

(c) when offering the shares to our employees as a bonus;

(d) when the shareholder disagrees with the resolution of the shareholders' general meeting on the merger or separation of our Bank and requires our Bank to repurchase his/her/its shares.

Where our Bank repurchases our shares under circumstances (a) to (c), we shall obtain approval from shareholders' general meeting. Where we repurchase our shares under circumstance (a), we shall cancel the shares within 10 days from the date of repurchase. Where we repurchase our shares under circumstances (b) and (d), we shall transfer or cancel the shares within 6 months. The shares repurchased by us under circumstance (c) shall not exceed 5% of our total issued shares. The funds for repurchase shall be paid from our after-tax profits and the shares redeemed shall be transferred to the employees within one year.

We may, with the approval of the relevant regulatory authorities, conduct the repurchase in any one of the following ways:

(a) making a pro rata offer of repurchase to all of our shareholders;

(b) repurchasing shares through public trading on a stock exchange;

(c) repurchasing by a negotiated contract outside of any stock exchange; or

(d) by other means as stipulated by the applicable laws and administrative regulations and as approved by the relevant regulatory authorities.

RIGHT OF OUR SUBSIDIARY BANKS (SUBSIDIARY COMPANIES) TO OWN OUR SHARES

There are no provisions in our Articles of Association that prevent our subsidiary banks (subsidiary companies) from owning any of our shares.

DIVIDENDS AND OTHER METHODS OF PROFIT DISTRIBUTION

Our Bank may distribute dividends in the form of cash or shares.

Our after-tax profits shall be distributed in the following order of priority:

(a) offsetting the losses in previous years;

(b) allocating 10% to our statutory reserve fund;

(c) allocating to general reserve;

(d) allocating to our discretionary reserve fund; and

(e) paying dividends to our shareholders.

In the event that the accumulated statutory reserve exceeds 50% of our registered capital, no further allocation is needed. Upon approval of the Shareholders' general meeting, further allocation to the discretionary reserve may be made after making allocations to the statutory reserve and the general reserve. Where our Bank in contravention of the aforesaid requirements distributes dividends to Shareholders before making up losses, making allocations to the statutory reserve and the general reserve, such Shareholders shall refund to us all such dividends distributed. Shares held by ourselves shall not participate in any distribution of profits.

Our Bank shall appoint receiving agents on behalf of the Shareholders of the overseas-listed shares. Receiving agents shall receive on behalf of the relevant Shareholders dividends declared and all other monies payable by our Bank in respect of their overseas-listed shares. The receiving agents appointed by the Bank shall comply with the laws and the requirements of the regulations of the securities regulatory authorities where the shares of our Bank are listed. The receiving agents appointed on behalf of the shareholders of H Shares shall be a trust company registered in accordance with the Trustee Ordinance of Hong Kong.

SHAREHOLDERS' PROXIES

Any shareholder entitled to attend and vote at the shareholders' general meetings shall be entitled to appoint one or more other persons (whether a shareholder or not) as his/her/its proxy to attend and vote on his/her/its behalf.

Shareholders shall entrust the proxy in writing, and the proxy shall be signed by the shareholders or agents authorized by the shareholders in writing. If a shareholder is a legal person, the instrument shall be sealed with the legal person's stamp or signed by its directors or agents formally authorized in writing.

Any blank proxy form issued by our Board to a shareholder for appointing a proxy to attend and vote at a shareholders' general meeting shall enable the shareholder to freely instruct the proxy to vote in favor of or against each resolution put to vote at the meeting individually. Such a proxy form shall specify that in the absence of specific instructions from the shareholder, whether the proxy may vote at his/her own discretion.

A vote given in accordance with the terms of an instrument appointing the proxy shall be valid notwithstanding the death or incapacity of the appointer or revocation of the proxy or of the authorization granted by the executed appointing instrument, or the relevant shares in respect of which the proxy is given have been transferred, provided that no notice in writing of such death, incapacity, revocation or transfer has been received by our Bank before the commencement of the meeting at which the proxy is used.

CALLS ON SHARES AND FORFEITURE OF SHARES

Subject to compliance with the relevant laws, administrative regulations and departmental rules of the PRC, our Bank may exercise the right to forfeit unclaimed dividends, provided that such right shall be exercisable only after the applicable limitation period expires.

Our Bank shall have the right to terminate sending dividend warrants to shareholders of overseas-listed shares by mail, but our Bank shall exercise the right only after a dividend warrant fails to be redeemed for two consecutive occasions, however our Bank can exercise the right after the first occasion on which such a dividend warrant is returned as undelivered.

Our Bank shall have the power to sell, in such manner as the Board deems appropriate, any overseas-listed shares of a shareholder who is untraceable, but is subject to the following conditions:

(a) our Bank has distributed dividends for at least three times in respect of such shares within 12 years, but none of such dividends was claimed; and

(b) our Bank, after the expiration of a period of 12 years, makes an advertisement on one or more newspapers where the shares of our Bank are listed, stating its intention to sell such shares, and informs the securities regulatory authorities where the shares of our Bank are listed.

INSPECTION OF REGISTER OF SHAREHOLDERS

Our Shareholders are entitled to inspect all parts of the register of Shareholders for free and make photocopies upon payment of a reasonable cost according to our Articles of Association.

QUORUM FOR SHAREHOLDERS' GENERAL MEETINGS AND SEPARATE CLASS MEETINGS

Our Bank may convene a Shareholders' general meeting or class Shareholders' meeting where our Bank has received 20 days before such meetings written replies from Shareholders who are entitled and intend to attend the meeting and the number of voting shares held by those shareholders is half or more of our voting shares or the voting shares of that class. Otherwise, our Bank shall, within 5 days, notify the Shareholders again by public notice of the matters to be considered, and the place and date for the meeting. Our Bank may then hold the Shareholders' general meeting or class Shareholders' meeting after the publication of such notice.

RIGHTS OF MINORITY SHAREHOLDERS

In addition to obligations imposed by the applicable laws, administrative regulations or requirements imposed by securities regulatory authorities where our shares are listed, our controlling Shareholder, in exercising the power as a Shareholder, shall not exercise his/her/its voting rights in a manner prejudicial to the interest of all or part of the Shareholders in respect of the following matters:

(a) to relieve a director or supervisor of his/her duty to act in good faith in our best interest;

(b) to approve the expropriation by a Director or Supervisor for his/her own benefit or for the benefit of others, under any disguise, of our Bank's assets, including but not limited to any opportunities beneficial to our Bank; or

(c) to approve the expropriation by a Director or Supervisor for his/her own benefit or for the benefit of others of the rights of other Shareholders, including but not limited to distribution rights and voting rights, except pursuant to a restructuring submitted to the Shareholders' general meeting for approval in accordance with our Articles of Association.

A "controlling Shareholder" herein shall refer to a person who satisfies any of the following conditions:

- acting alone or in concert with others, has the power to elect half or more of the Directors;
- acting alone or in concert with others, has the power to exercise or to control the exercise of 30% or more of the voting rights in our Bank;
- acting alone or in concert with others, holds 30% or more of the issued shares of our Bank; and
- acting alone or in concert with others, can impose *de-facto* control our Bank in any other manner.

PROCEDURES ON LIQUIDATION

Our Bank shall be dissolved according to the law upon the occurrence of any of the following events:

(a) a resolution for dissolution is passed by a Shareholders' general meeting;

(b) dissolution upon a merger or separation of our Bank;

(c) our Bank has its business license revoked or is ordered to be closed down or revoked pursuant to the law; and

(d) our Bank meets any significant difficulty in its operations or management, so under the circumstance of which continuing existence will cause material harm to shareholders' interests, the problem cannot be solved by any other means; the shareholders holding 10% or more of the voting rights of our Bank may request the People's Court to dissolve our Bank.

Where the Board decides to liquidate our Bank due to reasons other than insolvency, the Board shall include a statement in its notice convening a shareholders' general meeting to the effect that, after making full inquiry of our Bank's condition, the Board is of the opinion that our Bank will be able to repay its debts in full within 12 months of the commencement of the liquidation.

Upon the adoption of the resolution to liquidate our Bank in a shareholders' general meeting, and the establishment of the liquidation committee, all functions and powers of the Board shall cease immediately.

The liquidation committee shall follow the directions of the shareholders' general meeting to make a report at least once every year to the shareholders' general meeting on its income and expenditures, the business of our Bank and the progress of the liquidation and to present a final report to the shareholders' general meeting upon completion of the liquidation.

OTHER PROVISIONS MATERIAL TO OUR BANK AND OUR SHAREHOLDERS

Functions and Authority of the Shareholders' Meeting

The shareholders' meeting is the authorized entity to exercise the functions and authorities as follows:

(a) decision on business policies and investment plans;

(b) appointment and replacement of directors and supervisors who are not employee representatives and decision on their remuneration;

(c) review and approval of reports of the Board;

(d) review and approval of reports of the Board of Supervisors;

(e) review and approval of proposed annual financial budgets and final accounts;

(f) review and approval of profit distribution and loss appropriation plan;

(g) resolutions on increase or reduction of our registered capital;

(h) resolutions on merger, division, dissolution, liquidation or change of the corporate form of our Bank;

(i) decision on engagement, dismissal or discontinuance of engagement of accounting firm;

(j) revision of our Articles of Association;

(k) resolutions on issuance of debentures or other marketable securities and listing;

(l) consideration and review of matters relating to the acquisition or disposal of material assets , or provision of guaranty where the amount exceeds 30% of the total amount of our Bank's assets within one year;

(m) review and approval of setup of legal persons, material acquisition and merger, material investment, material write-off of assets, and material purchase of assets, material disposal of assets, material external guarantee other than those stipulated in (l) or to authorize the Board to review and approve such matters;

(n) review and approval of proposals by shareholders independently or collectively hold more than 3% of the voting rights; and

(o) review and approval of other matters which shall be approved by the shareholders' general meeting in accordance with laws, administrative regulations, departmental rules, statutory documents and our Articles of Association.

Loans to Shareholders

The conditions of facility that our Bank offers to the shareholders shall not be more favorable than those offered to other customers of the same type of facility.

Where the Shareholders, especially the major shareholders, owe overdue facility to our Bank, we shall restrict his/her/its rights to vote at the shareholders' general meeting and the rights of the directors delegated by such shareholders to vote at Board meetings.

Directors' Qualification Shares

A director is a natural person, who does not necessarily hold the shares of our Bank.

BOARD

The Board exercises the functions and authorities as follows:

(a) to convene shareholders' general meetings and to report on its performance to shareholders' general meetings;

(b) to implement the resolutions of the shareholders' general meetings;

(c) to decide on our business plans and investment schemes;

(d) to formulate our business development strategies and oversee the implementation of such strategies;

(e) to formulate our proposed annual financial budgets and final accounts;

(f) to formulate our profit distribution and loss appropriation plan;

(g) to formulate proposals for increase or reduction of our registered capital, issuance of debentures or other securities and listing plans;

(h) to formulate proposals for material acquisitions, the repurchase of our shares, merger, division, dissolution or change of corporate form of our Bank;

(i) within the scope authorized by our shareholders' general meetings, to decide on such matters as the setup of legal persons, material acquisition and merger, material investment, and material purchase of assets, material disposal of assets, material write-off of assets, material external guarantee;

(j) to decide on the establishment of our internal management departments;

(k) to appoint or remove our President and secretary to our Board; to appoint or remove senior management, such as our Vice Presidents, head of finance department based on the nominations by the President and to decide on matters relating to their emoluments and incentives or punishments;

(l) to establish our basic management system;

(m) to formulate proposals for any amendment to our Articles of Association, Rules of Procedures for Shareholders' General Meetings and Rules of Procedures for the Board;

(n) to manage our disclosure of information and to be liable to the truthfulness, accuracy, completeness, and timeliness of the accounting and financial reports of our Bank;

(o) to propose to the shareholders' meeting the appointment, dismissal or discontinuing to appoint the accounting firms;

(p) to regularly evaluate and improve corporate governance;

(q) to review working reports of the President and to examine the President's performance; and

(r) other functions and authorities as prescribed in the laws, administrative regulations, department rules, statutory documents, our Articles of Association and authorized by the shareholders' general meeting.

Regular meetings of the Board shall be held at least four times every year and be convened by the Chairman of the Board. Notice of the meeting shall be served to all of the directors and supervisors in writing 14 days before the date of a regular meeting.

Board meetings shall be held only if more than half of the directors are present. Each director shall have one vote.

PRESIDENT

Our President shall be responsible to the Board and exercise the functions and authorities as follows:

(a) to be in charge of our operation and management, organize the implementation of the resolution of the Board and report his/her work to the Board;

(b) to submit to the Board the business plans and investment schemes on behalf of the senior management and, after approval of the Board, to organize the implementation;

(c) to organize the formulation of specific rules of our bank, development plans, annual business plans and to be responsible for the implementation;

(d) to authorize senior management, chief officers of our internal departments and the branches to engage in operational activities;

(e) to draft plans for the establishment of our internal management departments;

(f) to propose to the Board to appoint or dismiss our Vice President, financial officer and other senior management;

(g) to decide the appointment or dismissal of persons in charge of internal functional departments and branches of our Bank (other than those required to be appointed or dismissed by the Board);

(h) to formulate the remuneration of, benefits for, incentives for and punishments of our employees and to decide on the engagement and dismissal of our employees;

(i) to propose to convene extraordinary meetings of the Board;

(j) to take immediate measures in case of a run on our Bank or other material emergencies, and report to banking regulatory authorities of the State Council, the Board, and Board of Supervisors immediately; and

(k) other functions and authorities as prescribed in the laws, administrative regulations, department rules, statutory documents, provisions of the relevant regulatory authorities and our Articles of Association and other functions and authorities authorized by the Board.

Our President shall be present at Board meetings. However, the President shall have no voting rights at the meetings unless he/she is also a director.

BOARD OF SUPERVISORS

Our Bank shall establish a Board of Supervisors which shall be comprised of three to nine supervisors. The Board of Supervisors shall have one chairman. The election or removal of the chairman shall be determined by two-thirds or more of the members of the Board of Supervisors. Unless otherwise provided by laws, administrative regulations, department rules, relevant regulatory authorities and our Article of Association, resolutions by the Board of Supervisors shall be made by two-thirds or above of all Supervisors.

Supervisors of the Bank include supervisors representing shareholders, external supervisors and supervisors representing employees ("Employee Supervisors"). The proportion of our Employee Supervisors and external supervisors shall not be less than one third of the total number of supervisors respectively.

Supervisors representing shareholders shall be nominated by the Board of Supervisors or the shareholders holding individually or in aggregate 3% or more of total shares of our Bank with voting rights. The external supervisors of the Bank shall be nominated by the Board of Supervisors or the shareholders holding individually or in aggregate 1% or more of total shares of our Bank with voting rights. Employee Supervisors shall be nominated by our Board of Supervisors and Labor Union. Supervisors representing shareholders and external supervisors shall be subject to the election, removal or change by the shareholders' general meeting while Employee Supervisors shall be subject to the election, removal or change through democratic procedure of the employees.

The Board of Supervisors shall be accountable to the shareholders' general meeting and exercise the functions and authorities as follows:

(a) to oversee the conduct of our directors and senior management in carrying out their duties;

(b) to oversee the conduct of our directors and senior management in performing their duties, propose removal of our directors and senior management, who have violated laws, administrative regulations, our Articles of Association or resolutions of shareholders' general meeting;

(c) to urge directors and senior management to rectify their conduct which is prejudicial to the interests of our Bank;

(d) to carry out an audit of any resigning directors and senior management if necessary;

(e) to examine and supervise our financial activities;

(f) to supervise and review our business decisions, risk management and internal control of our Bank, and to urge for rectification;

(g) to inquire into directors, chairman of the Board and senior management;

(h) to propose the convening of extraordinary shareholders' general meetings, and to convene and preside over the shareholders' general meetings if our Board fails to call and preside over such meetings as required by the PRC Company Law or our Article of Association;

(i) to present at Board meetings;

(j) to present proposals to the shareholders' general meetings;

(k) to check the financial reports, operating reports, profit distribution plan and other financial information the Board intends to submit to the shareholders' general meeting, and to investigate if in doubt or discovering any irregularities in the operations of our Bank, and may engage accounting firms, law firms or other professional firms to assist its work if necessary at the costs of our Bank;

(l) to bring actions against directors and senior management according to the PRC Company Law;

(m) to propose remuneration (or allowance) arrangements of supervisors; and

(n) other functions and authorities as prescribed in the laws, administrative regulations, department rules, statutory documents, our Article of Association or authorized by the shareholders' general meetings.

RESOLUTION OF DISPUTES

Our Bank shall comply with the following rules of dispute resolution:

Whenever any disputes or claims arise from any rights or obligations conferred or imposed by our Articles of Association, the PRC Company Law or other relevant laws, administrative regulations concerning the affairs of our Bank between shareholders of the overseas-listed shares and our Bank, shareholders of the overseas-listed shares and our directors, supervisors, senior management, or shareholders of the overseas-listed shares and shareholders of our domestic shares, the parties concerned shall forthwith refer such disputes or claims to arbitration for resolution.

A dispute or claim mentioned above which is referred to arbitration shall be the entire dispute and claim; all persons having a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall abide by such arbitration if such person is our Bank or a shareholder, director, supervisor or senior management of our Bank.

Disputes over the identity of a shareholder and over the register of shareholders do not have to be resolved through arbitration.

A claimant may elect for arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant.

If a claimant elects for arbitration at the HKIAC, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the HKIAC.

The laws of the PRC shall govern the arbitration of the disputes or claims described in above unless otherwise provided by the laws, administrative regulations, department rules and statutory documents.

The decision of an arbitration body shall be final, conclusive and binding on all parties.

1. TAXATION OF SECURITY HOLDERS

The taxation of income and capital gains of holders of H Shares is subject to the laws and practices of the PRC and of jurisdictions in which holders of H Shares are resident or otherwise subject to tax. The following summary of certain relevant taxation provisions is based on current laws and practices, is subject to change and does not constitute legal or tax advice. The discussion does not deal with all possible tax consequences relating to an investment in the H Shares, nor does it take into account the specific circumstances of any particular investor, some of which may be subject to special regulation. Accordingly, you should consult your own tax advisor regarding the tax consequences of an investment in the H Shares. The discussion is based upon laws and relevant interpretations in effect as of the date of this prospectus, all of which are subject to change and may have retrospective effect.

This discussion does not address any aspects of PRC or Hong Kong taxation other than income tax, capital tax, stamp duty and estate duty. Prospective investors are urged to consult their financial advisors regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H Shares.

A. The PRC Taxation

Taxation on Dividends

Individual Investors

Pursuant to the latest Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》) (the "IIT Law") as amended on June 30, 2011 and the latest Regulations on Implementation of the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法實施條例》) as amended on July 19, 2011, dividends paid by PRC enterprises are subject to a PRC withholding tax levied at a flat rate of 20%. For a foreign individual who is not a resident of the PRC, the receipt of dividends from an enterprise in the PRC is normally subject to a withholding tax of 20% unless specifically exempted by the tax authority of the State Council or reduced by an applicable tax treaty.

Pursuant to the Notice of the State Administration of Taxation on Issues Concerning Taxation and Administration of Individual Income Tax After the Repeal of the Document (Guo Shui Fa 1993 No. 45) (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》) issued by SAT on June 28, 2011, domestic non-foreign-invested enterprises issuing shares in Hong Kong may, when distributing dividends, withhold individual income tax at the rate of 10%. For the individual holders of H Shares receiving dividends who are citizens of countries that have entered into a tax treaty with the PRC with tax rates lower than 10%, the non-foreign-invested enterprise whose shares are listed in Hong Kong may apply on behalf of such holders for enjoying the lower preferential tax treatments, and, upon approval by the tax authorities, the amount which is over withheld will be refunded. For the individual holders of H shares receiving dividends who are citizens of countries that have entered into a tax treaty with the PRC with tax rates higher than 10% but lower than 20%, the non-foreign-invested enterprise is required to withhold the tax at the agreed rate under the treaties, and no application procedures will be necessary. For the individual holders of H Shares receiving dividends who are citizens of countries without taxation treaties with the PRC or are under other situations, the non-foreign-invested enterprise is required to withhold the tax at a rate of 20%.

Enterprise Investors

In accordance with the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the "EIT Law"), and the Implementation provisions for the Enterprise Income Tax Law of the PRC

(《中華人民共和國企業所得稅法實施條例》), both effective as of January 1, 2008, a non-resident enterprise is generally subject to a 10% enterprise income tax on PRC-sourced income (including dividends received from a PRC resident enterprise that issues shares in Hong Kong), if such non-resident enterprise does not have an establishment or place in the PRC or has an establishment or place in the PRC but the PRC-sourced income is not connected with such establishment or place in the PRC. The withholding tax may be reduced or eliminated pursuant to applicable treaties for the avoidance of double taxation. Such withholding tax for non-resident enterprises are deducted at source, where the payer of the income are required to withhold the income tax from the amount to be paid to the non-resident enterprise when such payment is made or due. The Circular on Issues Relating to the Withholding of Enterprise Income Tax by PRC Resident Enterprises on Dividends Paid to Overseas Non-PRC Resident Enterprise Shareholders of H Shares (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) (Guo Shui Han [2008] No.897) which was issued by SAT on November 6, 2008, further clarified that a PRC-resident enterprise must withhold enterprise income tax at a rate of 10% on dividends paid to non-PRC resident enterprise shareholders of H Shares with respect to the dividends of 2008 and onwards. In addition, the Response to Questions on Levying Enterprise Income Tax on Dividends Derived by Non-resident Enterprise from Holding Stock such as B-shares (國家稅務總局關於非居民企業取得B股等股票股息徵收企業所得稅問題的批覆) (Guo Shui Han [2009] No.394) which was issued by SAT on July 24, 2009, provides that any PRC-resident enterprise that is listed on overseas stock exchanges must withhold enterprise income tax at a rate of 10% on dividends of 2008 and onwards that it distributes to non-resident enterprises. Such tax rates may be further modified pursuant to the tax treaty or agreement that China has concluded with a relevant jurisdiction, where applicable.

Pursuant to the Arrangement between the Mainland and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) signed on August 21, 2006, the Chinese Government may levy taxes on the dividends paid by a Chinese company to Hong Kong residents (including natural persons and legal entities) in an amount not exceeding 10% of total dividends payable by the Chinese company. If a Hong Kong resident directly holds 25% or more of the equity interest in a Chinese company, then such tax shall not exceed 5% of the total dividends payable by the Chinese company.

Tax Treaties

Investors who are not PRC residents and reside in countries which have entered into avoidance of double taxation treaties with the PRC are entitled to a reduction of the withholding taxes imposed on the dividends received from PRC companies. The PRC currently has Avoidance of Double Taxation Treaties with a number of countries and regions including HK, Macau, Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States. Non-PRC resident enterprises entitled to preferential tax rates in accordance with the relevant income tax treaties or arrangements are required to apply to the Chinese tax authorities for a refund of the withholding tax in excess of the agreed tax rate, and the refund payment is subject to approval by the Chinese tax authorities.

Taxation on Share Transfer

Individual Investors

According to the IIT Law and its implementation provisions, gains realized on the sale of equity interests in the PRC resident enterprises are subject to the income tax at a rate of 20%.

Under the Circular Declaring that Individual Income Tax Continues to Be Exempted over Individual Income from Transfer of Shares (財政部、國家稅務總局關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知) (Cai Shui Zi [1998] No. 61) issued by the MOF and the SAT on March 20, 1998, from January 1, 1997, gains of individuals from the transfer of shares of listed enterprises continues to be exempted from individual income tax. In the latest IIT Law and its implementing rules, the SAT has not explicitly stated whether it will continue to exempt individuals from income tax on income derived from the transfer of listed shares. However, on December 31, 2009, the MOF, the SAT and the CSRC jointly issued the Circular on Relevant Issues Concerning the Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation (關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知) (Cai Shui [2009] No. 167), which provides that individuals' income from transferring listed shares on certain domestic exchanges shall continue to be exempted from the individual income tax, except for certain shares which are subject to sales limitations as defined in the Supplementary Circular on Relevant Issues Concerning the Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation (關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的補充通知) (Cai Shui [2010] No. 70). As of the Latest Practicable Date, the aforesaid provision has not expressly provided that individual income tax shall be collected from non-PRC resident individuals on the sale of shares of PRC resident enterprises listed on overseas stock exchanges. To our knowledge, in practice, the PRC tax authorities have not collected income tax from non-PRC resident individuals on gains from the sale of shares of PRC resident enterprises listed on overseas stock exchanges.

Enterprise Investors

In accordance with the EIT Law and its implementation provisions, a non-resident enterprise is generally subject to a 10% enterprise income tax on PRC-sourced income, including gains derived from the disposal of equity interests in a PRC resident enterprise, if it does not have an establishment or place in the PRC or has an establishment or place in the PRC but the PRC-sourced income is not connected in reality with such establishment or place. Such income tax for non-resident enterprises are deducted at source, where the payer of the income are required to withhold the income tax from the amount to be paid to the non-resident enterprise when such payment is made or due. The withholding tax may be reduced or eliminated pursuant to applicable treaties or agreements on avoidance of double taxation.

Stamp Duty

Pursuant to the Provisional Regulations of the PRC Concerning Stamp Duty (《中華人民共和國印花稅暫行條例》) effective as of October 1, 1988 and amended on January 8, 2011, and the Detailed Rules for Implementation of Provisional Regulations of the PRC Concerning Stamp Duty (《中華人民共和國印花稅暫行條例施行細則》) effective as of October 1, 1988, PRC stamp duty does not apply to the acquisition and disposal of H Shares by non-PRC investors outside of the PRC, as PRC stamp duty is imposed on documents that are legally binding in the PRC and governed by the PRC laws.

Estate Duty

As of the date of this prospectus, no estate duty has been levied in China under the PRC laws.

B. Hong Kong Taxation

Tax on Dividends

Under the current practice of the Inland Revenue Department of Hong Kong, no tax is payable in Hong Kong in respect of dividends paid by us.

Capital Gains and Profit Tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of H shares. However, trading gains from the sale of the H shares by persons carrying on a trade, profession or business in Hong Kong, where such gains are derived from or arise in Hong Kong from such trade, profession or business will be subject to Hong Kong profits tax, which is currently imposed at the maximum rate of 16.5% on corporations and at the maximum rate of 15% on unincorporated businesses. Certain categories of taxpayers are likely to be regarded as deriving trading gains rather than capital gains (for example, financial institutions, insurance companies and securities dealers) unless these taxpayers can prove that the investment securities are held for long-term investment purposes.

Trading gains from sales of the H Shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H Shares effected on the Hong Kong Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty, currently charged at the ad valorem rate of 0.1% on the higher of the consideration for or the market value of the H Shares, will be payable by the purchaser on every purchase and by the seller on every sale of any Hong Kong securities, including H Shares (in other words, a total of 0.2% is currently payable on a typical sale and purchase transaction involving H Shares). In addition, a fixed stamp duty of HK$5.00 is currently payable on any instrument of transfer of H Shares. Where one of the parties is a resident outside Hong Kong and does not pay the ad valorem duty due by it, the duty not paid will be assessed on the instrument of transfer (if any) and will be payable by the transferee. If no stamp duty is paid on or before the due date, a penalty of up to 10 times the duty payable may be imposed.

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 abolished estate duty in respect of deaths occurring on or after February 11, 2006.

2. PRINCIPAL TAXATION OF OUR BANK BY THE PRC

Enterprise Income Tax

As stipulated under the EIT Law, enterprises and other organizations which generate income within the PRC are enterprise income tax payers and subject to enterprise income tax at the rate of 25%.

Business Tax

Pursuant to the Provisional Regulations of the PRC on Business Tax (《中華人民共和國營業税暫行條例》), which became effective on January 1, 1994, subsequently amended on November 5, 2008 and implemented on January 1, 2009, enterprises (including foreign-invested enterprises) and individuals that provide labor services and transfer intangible assets or sell real estate within the PRC as specified by such regulations are subject to business tax. Financial and insurance companies are subject to a 5% business tax.

According to the Pilot Reform for Transition from Business Tax to VAT (《營業稅改徵增值稅試點方案》) (Cai Shui [2011] No. 110) issued by MOF and SAT and effected on November 16, 2011, pilot reforms for transition from business tax to VAT have been started since January 1, 2012 in certain service industries such as transportation and some of the modern service industries in pilot areas such as Shanghai and Beijing. According to a further notice of MOF and SAT, such reform has been expanded nationwide since August 1, 2013.

3. TAXATION OF OUR BANK IN HONG KONG

Our Directors do not consider that any of our Bank's income is derived from or arises in Hong Kong for the purpose of Hong Kong taxation. Our Bank will therefore not be subject to Hong Kong taxation.

4. FOREIGN EXCHANGE

The lawful currency of the PRC is the Renminbi, which is currently subject to foreign exchange control and is not freely convertible into foreign exchange. The SAFE, under the authority of PBoC, is responsible for administration of all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

In accordance with the Notice of the State Council on Further Reforming the Foreign Exchange Management System (《關於進一步改革外匯管理體制的通知》) (Guo Fa [1993] No. 89) issued by the State Council, since January 1, 1994, the conditional convertibility of Renminbi in current account items has been implemented, and the official Renminbi exchange rate and the market rate for Renminbi have been unified. The former dual exchange rate system for Renminbi had been abolished and a unitary and managed floating rate based on market demand and supply was introduced. PBoC set and published daily the medium price of Renminbi against the U.S. dollar and the exchange rates of Renminbi against other currencies in reference to the changes in the international foreign exchange markets, which was permitted to float to a certain extent in foreign exchange transactions.

On January 29, 1996, the State Council promulgated the Regulations of the PRC for Foreign Exchange Control (《中華人民共和國外匯管理條例》) (the "Foreign Exchange Control Regulations") which became effective on April 1, 1996. The Foreign Exchange Control Regulations classifies all international payments and transfers into current account items and capital account items. Most of the current account items are no longer subject to SAFE's approval, while capital account items still are. The Foreign Exchange Control Regulations were subsequently amended on January 14, 1997 and August 5, 2008. The latest amended Foreign Exchange Control Regulations clearly states that the State will not impose any restriction on international payments and transfers under the current account items.

On June 20, 1996, PBoC promulgated the Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》) (the "Settlement Regulations") which became effective on July 1, 1996. The Settlement Regulations abolished all other restrictions on convertibility of foreign exchange under current account items, while retaining the existing restrictions on foreign exchange transactions under capital account items.

According to the Announcement on Improving the Reform of the Renminbi (《完善人民幣匯率形成機制改革有關事宜公告》) (PBoC Announcement (2005) No. 16), issued by PBoC on July 21, 2005 and effective on the same date, the PRC began to implement a managed floating exchange rate system in which the exchange rate would be determined based on market supply and demand and adjusted with reference to a basket of currencies. The Renminbi exchange rate was no longer pegged to the U.S. dollar. PBoC would publish the closing price of foreign currencies such as the U.S. dollar against Renminbi in the interbank foreign exchange market after the closing of the market on each working day, which will be used as the central parity for the transactions of such foreign currency against Renminbi exchange rate on the following working day.

Starting from January 4, 2006, PBoC introduced over-the-counter transactions into the interbank spot foreign exchange market for the purpose of improving the formation mechanism of the central parity of Renminbi exchange rates, and the practice of matching was kept at the same time. In addition to the above, PBoC introduced the market-maker rule to provide liquidity to the foreign exchange market. On July 1, 2014, PBoC further improved the formation mechanism of the RMB exchange rate by authorizing the China Foreign Exchange Trade System to make inquiries with the market makers before the interbank foreign exchange market opens every day for their offered quotations which are used as samples to calculate the central parity of the RMB against the USD and certain other foreign currencies of the current day, which shall be finally decided on the weighted average of the prices of all market makers after excluding the highest and lowest quotations, and announce it at 9:15 a.m. on each working day. On August 11, 2015, PBoC announced to improve the central parity quotations of RMB against the U.S. dollar by authorizing market-makers to provide central parity quotations to the China Foreign Exchange Trading Center with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign exchange as well as changes in major international currency exchange rates.

On August 5, 2008, the State Council promulgated the revised Regulations of the PRC for Foreign Exchange Control (the "Revised Foreign Exchange Control Regulations"), which have made substantial changes to the foreign exchange supervision system of the PRC. First, the Revised Foreign Exchange Control Regulations have adopted an approach of balancing the inflow and outflow of foreign exchange. Foreign exchange income received overseas can be repatriated or deposited overseas, and foreign exchange and foreign exchange settlement funds under the capital account are required to be used only for purposes as approved by the competent authorities and foreign exchange administrative authorities. Second, the Revised Foreign Exchange Control Regulations have improved the mechanism for determining the RMB exchange rate based on market supply and demand. Third, the Revised Foreign Exchange Control Regulations have enhanced the monitoring of cross-border foreign currency fund flows. In the event that revenues and costs in connection with international transactions suffer or may suffer a material misbalance, or the national economy encounters or may encounter a severe crisis, the State may adopt necessary safeguard or control measures. Fourth, the Revised Foreign Exchange Control Regulations have enhanced the supervision and administration of foreign exchange transactions and grant extensive authorities to SAFE to enhance its supervisory and administrative powers.

PRC enterprises (including foreign-invested enterprises) which need foreign exchange for transactions relating to current account items may, without the approval of SAFE, effect exchange and payment from their foreign exchange accounts at the designated foreign exchange banks with the support of valid receipts and proof. Foreign-invested enterprises which need foreign exchange for the distribution of profits to their shareholders and PRC enterprises which, in accordance with regulations, are required to pay dividends to their shareholders in foreign exchange (such as our Bank) may, on the strength of resolutions of the board of directors or the shareholders' meeting approving the distribution of profits, effect exchange and payment from their foreign exchange accounts or convert and pay dividends at the designated foreign exchange banks.

On October 23, 2014, the State Council promulgated the Decisions on Matters including Canceling and Adjusting a Batch of Administrative Approval Items (《國務院關於取消和調整一批行政審批項目等事項的決定》) (Guo Fa [2014] No.50), which canceled the approval requirement by the SAFE and its branches for the repatriation and settlement of foreign exchange of overseas-raised funds through overseas listing.

On December 26, 2014, the SAFE issued the Notice of the State Administration of Foreign Exchange on Issues Concerning the Foreign Exchange Administration of Overseas Listing (《國家外匯管理局關於境外上市外匯管理有關問題的通知》), pursuant to which a domestic issuer shall, within 15 business days of the end of its initial public offering overseas, register the overseas listing with the SAFE's local branch at the place of its incorporation; and the proceeds from an overseas listing may be remitted to the domestic account or deposited in an overseas account, but the use of the proceeds shall be consistent with the content of the prospectus and other disclosure documents. Approval from SAFE's local branch must be obtained to convert proceeds deposited in a domestic account into RMB.

On February 13, 2015, the SAFE issued the Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving the Foreign Exchange Management Policies for Direct Investment (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) (Hui Fa [2015] No.13), which came into effect on June 1, 2015. The Notice cancels the foreign exchange registration approval under domestic direct investment and foreign exchange registration approval under overseas direct investment, and requires the banks to review and carry out foreign exchange registration under domestic direct investment and foreign exchange registration under overseas direct investment directly. SAFE and its branches shall implement indirect supervision over foreign exchange registration of direct investment via the banks.

1. FURTHER INFORMATION ABOUT OUR BANK

A. Incorporation

We were incorporated as a joint stock limited company in the PRC on November 15, 1996 under the PRC Company Law under the name of "Qingdao City Cooperative Bank Co., Ltd.". In June 1998, we were renamed as "Qingdao Commercial Bank Co., Ltd.", and subsequently in 2008, our name was further changed to "Bank of Qingdao Co., Ltd.". Our registered address is No. 68 Hong Kong Middle Road, Shinan District, Qingdao. Our Bank has established a principal place of business in Hong Kong at 36th Floor, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong and has been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance. KCS Hong Kong Limited has been appointed by us as our agent for the acceptance of service of process and notices on behalf of us in Hong Kong. Our address for acceptance of service of process in Hong Kong is the same as the address of our principal place of business in Hong Kong. We conduct our banking business in the PRC under the supervision and regulation of CBRC and PBoC. We are not an authorized institution within the meaning of the Banking Ordinance, and are not subject to the supervision of the Hong Kong Monetary Authority, nor authorized to carry on banking and/or deposit-taking business in Hong Kong.

As we are incorporated in the PRC, our corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. A summary of certain relevant aspects of the laws and regulations of the PRC is set out in Appendix IV. A summary of the relevant provisions of our Articles of Association is set out in Appendix V.

B. Changes in Share Capital

At the time of our establishment, our initial registered capital was RMB247.44 million, divided into 247.44 million Shares of nominal value of RMB1.00 each, all of which were fully paid up.

During the two years preceding the date of this prospectus, we had the following change in our registered capital:

In 2014, three new corporate investors and the 11 then existing shareholders injected capital into our Bank, and we issued approximately 555.56 million shares at RMB3.6 each. The change of registration in Shandong Administration for Industry and Commerce was completed on February 28, 2015. Accordingly, our registered capital was increased from RMB2,555.98 million to RMB3,111,532,749, divided into 3,111,532,749 Shares of nominal value of RMB1.00 each, which was credited as fully paid up.

Save as disclosed above, there has been no alteration in our registered capital within the two years preceding the date of this prospectus.

Immediately after the Global Offering, our registered capital will be RMB4,011,532,749, consisting of 2,300,395,769 Domestic Shares and 1,711,136,980 H Shares, which represent approximately 57.34% and 42.66% of our registered capital, respectively (assuming the Over-allotment Option is not exercised).

C. Restriction on Share Repurchase

For details of the restrictions on the share repurchase by our Bank, see Appendix V—"Summary of Articles of Association—Power of our Bank to Repurchase Our Own Shares".

D. Resolutions of Our Shareholders

Resolutions were passed on the shareholders' general meeting on November 11, 2014, pursuant to which, among other matters, the shareholders' general meeting:

(a) approved our conversion into an overseas subscription joint stock limited company;

(b) approved the issuance and offering of H Shares and the granting of the Over-allotment Option;

(c) approved the listing of H Shares on the Hong Kong Stock Exchange; and

(d) authorized our Board and persons authorized by our Board to handle all matters relating to the listing of our H Shares.

Resolutions were passed on the Shareholders' general meeting on April 10, 2015, pursuant to which, among other matters, the shareholders' general meeting approved certain amendments to our Articles of Association in compliance with the requirements of the Listing Rules and other applicable laws and regulations, and our Directors were authorized to make further amendments to our Articles of Association according to any opinions given by the relevant regulatory authorities of the PRC and the Hong Kong Stock Exchange. The relevant amendments will become effective from the Listing Date.

2. FURTHER INFORMATION ABOUT OUR BUSINESS

A. Summary of Our Material Contracts

We have entered into the following contracts (not being contracts entered into in our ordinary course of business) within the two years preceding the date of this prospectus, which are or may be material.

(a) a share subscription agreement dated June 6, 2014, entered into between Qingdao Hairen Investment Co., Ltd. (青島海仁投資有限責任公司) and us, pursuant to which we agreed to issue, and Qingdao Hairen Investment Co., Ltd. agreed to subscribe for, 23,910,000 Shares for a consideration of RMB86,076,000;

(b) a share subscription agreement dated June 9, 2014, entered into between Qingdao Haier Mold Co., Ltd. (青島海爾模具有限公司) and us, pursuant to which we agreed to issue, and Qingdao Haier Mold Co., Ltd. agreed to subscribe for, 3,079,345 Shares for a consideration of RMB11,085,642;

(c) a share subscription agreement dated June 9, 2014, entered into between Qingdao Haier Tooling Development Co., Ltd. (青島海爾工裝研製有限公司) and us, pursuant to which we agreed to issue, and Qingdao Haier Tooling Development Co., Ltd. agreed to subscribe for, 2,239,523 Shares for a consideration of RMB8,062,282.80;

(d) a share subscription agreement dated June 9, 2014, entered into between Qingdao Haier Robot Co., Ltd. (青島海爾機器人有限公司) and us, pursuant to which we agreed to issue, and Qingdao Haier Robot Co., Ltd. agreed to subscribe for, 1,063,773 Shares for a consideration of RMB3,829,582.80;

(e) a share subscription agreement dated June 9, 2014, entered into between Qingdao Haier Co., Ltd. (青島海爾股份有限公司) and us, pursuant to which we agreed to issue, and Qingdao Haier Co., Ltd. agreed to subscribe for, 138,138,976.97 Shares for a consideration of RMB497,300,317.09;

(f) a share subscription agreement dated June 9, 2014, entered into between Qingdao Haier Air-Conditioner Co., Ltd. (青島海爾空調器有限總公司) and us, pursuant to which we agreed to issue, and Qingdao Haier Air-Conditioner Co., Ltd. agreed to subscribe for, 331,404 Shares for a consideration of RMB1,193,054.40;

(g) a share subscription agreement dated June 9, 2014, entered into between Qingdao Haier Special Refrigerator Co., Ltd. (青島海爾特種電冰櫃有限公司) and us, pursuant to which we agreed to issue, and Qingdao Haier Special Refrigerator Co., Ltd. agreed to subscribe for, 165,702 Shares for a consideration of RMB596,527.20;

(h) a share subscription agreement dated June 9, 2014, entered into between Shandong Sanliyuan Trading Development Co., Ltd. (山東三利源經貿有限公司) and us, pursuant to which we agreed to issue, and Shandong Sanliyuan Trading Development Co., Ltd. agreed to subscribe for, 27,170,000 Shares for a consideration of RMB97,812,000;

(i) a share subscription agreement dated June 9, 2014, entered into between Qingdao Biwan Marine Products Co., Ltd. (青島碧灣海產有限公司) and us, pursuant to which we agreed to issue, and Qingdao Biwan Marine Products Co., Ltd. agreed to subscribe for, 2,229,707 Shares for a consideration of RMB8,026,945.20;

(j) a share subscription agreement dated June 12, 2014, entered into between Qingdao New Hongfang Group Co., Ltd. (青島新紅紡集團有限公司) and us, pursuant to which we agreed to issue, and Qingdao New Hongfang Group Co., Ltd. agreed to subscribe for, 30,000,000 Shares for a consideration of RMB108,000,000;

(k) a share subscription agreement dated June 23, 2014, entered into between ISP and us, pursuant to which we agreed to issue, and ISP agreed to subscribe for, 111,111,187 Shares for a consideration of RMB400,000,273.20;

(l) a share subscription agreement dated July 24, 2014, entered into between Qingdao Weiao Railway Material Manufacturing Co., Ltd. (青島威奧軌道裝飾材料製造有限公司) and us, pursuant to which we agreed to issue, and Qingdao Weiao Railway Material Manufacturing Co., Ltd. agreed to subscribe for, 30,000,000 Shares for a consideration of RMB108,000,000;

(m) a share subscription agreement dated July 28, 2014, entered into between Qingdao Conson and us, pursuant to which we agreed to issue, and Qingdao Conson agreed to subscribe for, 95,179,773 Shares for a consideration of RMB342,647,182.80;

(n) a share subscription agreement dated September 9, 2014, entered into between Qingdao Jifa Group Co., Ltd. (青島即發集團股份有限公司) and us, pursuant to which we agreed to issue, and Qingdao Jifa Group Co., Ltd. agreed to subscribe for, 90,936,164 Shares for a consideration of RMB327,370,190.40;

(o) a letter of undertaking dated July 28, 2015 issued by Rothschilds, pursuant to which Rothschilds undertook not to exercise certain special rights upon Listing;

(p) a letter of undertaking dated August 11, 2015, entered into between ISP and us, pursuant to which ISP undertook not to exercise certain special rights upon Listing, and we agreed to waive some of the obligations of ISP upon Listing;

(q) a cornerstone investment agreement dated November 17, 2015 entered into among LRC. Belt and Road Investment Limited, Goldman Sachs (Asia) L.L.C., AMTD Asset Management Limited, CITIC CLSA Capital Markets Limited and us, pursuant to which LRC. Belt and Road Investment Limited agreed to subscribe for 200,000,000 H Shares at the Offer Price;

(r) a cornerstone investment agreement dated November 17, 2015 entered into among Jinan Binhe New District Constructive Investment Group, Goldman Sachs (Asia) L.L.C., CITIC CLSA Capital Markets Limited and us, pursuant to which Jinan Binhe New District Constructive Investment Group agreed to subscribe for 200,000,000 H Shares at the Offer Price;

(s) a cornerstone investment agreement dated November 17, 2015 entered into among Keystone Group LTD., Goldman Sachs (Asia) L.L.C., AMTD Asset Management Limited, CITIC CLSA Capital Markets Limited and us, pursuant to which Keystone Group LTD. agreed to subscribe for 110,000,000 H Shares at the Offer Price;

(t) a cornerstone investment agreement dated November 17, 2015 entered into among Rizhao Huaheng Materials Trade Co., Ltd., Goldman Sachs (Asia) L.L.C., CITIC CLSA Capital Markets Limited and us, pursuant to which Rizhao Huaheng Materials Trade Co., Ltd. agreed to subscribe for 100,000,000 H Shares at the Offer Price;

(u) a cornerstone investment agreement dated November 17, 2015 entered into among Yuan Shuchun, Goldman Sachs (Asia) L.L.C., CITIC CLSA Capital Markets Limited and us, pursuant to which Yuan Shuchun agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 500 H Shares) that may be purchased with an aggregate amount of HK$183,105,500 (exclusive of a brokerage fee of 1%, a Hong Kong Stock Exchange trading fee of 0.005% and a SFC transaction levy of 0.0027%) at the Offer Price;

(v) a cornerstone investment agreement dated November 17, 2015 entered into among Wu Jishan, Goldman Sachs (Asia) L.L.C., CITIC CLSA Capital Markets Limited and us, pursuant to which Wu Jishan agreed to subscribe for 30,000,000 H Shares at the Offer Price; and

(w) the Hong Kong Underwriting Agreement.

B. Intellectual Property Rights

As of June 30, 2015, we have registered the following intellectual property rights which are material to our business.

(a) Trademarks

As of June 30, 2015, we have registered the following trademarks which are material to our business.

No.	Trademark	Place of Registration	Application Class(es)	Application No.	Valid Period
1	BQD	PRC	36	10281890	August 28, 2014- August 27, 2024
2	BQDC	PRC	36	10640647	May 14, 2013- May 13, 2023
3	E智青银	PRC	36	10720170	June 7, 2013- June 6, 2023
4		PRC	36	6710352	April 14, 2010- April 13, 2020
5		PRC	9	10248092	February 7, 2013- February 6, 2023
6	青岛银行	PRC	9	10640108	June 21, 2013- June 20, 2023
7	多E点	PRC	36	11527291	February 28, 2014- February 27, 2024
8	海贷	PRC	36	11001811	September 28, 2013- September 27, 2023
9	海富汇	PRC	36	11174048	November 28, 2013- November 27, 2023
10	海恒润	PRC	36	11546574	March 7, 2014- March 6, 2024
11	海鸥	PRC	36	11089121	November 7, 2013- November 6, 2023
12	海融	PRC	36	11266937	December 21, 2013- December 20, 2023

No.	Trademark	Place of Registration	Application Class(es)	Application No.	Valid Period
13	海臻	PRC	36	11546538	March 7, 2014- March 6, 2024
14	慧理汇富	PRC	36	10131882	March 7, 2013- March 6, 2023
15	锦富	PRC	36	11002200	September 28, 2013- September 27, 2023
16		PRC	36	11527305	March 28, 2014- March 27, 2024
17	久九	PRC	36	11002327	September 28, 2013- September 27, 2023
18	开启财智人生	PRC	36	10720189	September 21, 2013- September 20, 2023
19	科易贷	PRC	36	9993684	November 21, 2012- November 20, 2022
20	青e贷	PRC	36	10382029	March 14, 2013- March 13, 2023
21	BANK OF QINGDAO	PRC	36	6710350	May 14, 2010- May 13, 2020
22	青岛银行	PRC	36	6710351	April 28, 2010- April 27, 2020
23	青岛银行	PRC	9	10640490	June 21, 2013- June 20, 2023
24	青馨	PRC	36	10132024	December 21, 2012- December 20, 2022
25	青鑫	PRC	36	10132018	December 21, 2012- December 20, 2022
26	青易创富	PRC	36	10132049	January 28, 2013- January 27, 2023
27	青易贷	PRC	9	10100501	December 21, 2012- December 20, 2022
28	青银爱的	PRC	36	10008294	November 21, 2012- November 20, 2022

No.	Trademark	Place of Registration	Application Class(es)	Application No.	Valid Period
29	青贷通	PRC	36	9773583	October 28, 2012- October 27, 2022
30	贸金通	PRC	36	9445198	May 28, 2012- May 27, 2022
31	青银海洋	PRC	36	11002135	September 28, 2013- September 27, 2023
32	青银金桥	PRC	36	10008284	November 28, 2012- November 27, 2022
33	青银久久	PRC	36	10008347	November 21, 2012- November 20, 2022
34	青银天富	PRC	36	10008268	November 28, 2012- November 27, 2022
35	青银唯尔	PRC	36	10008318	November 21, 2012- November 20, 2022
36	青银易富	PRC	36	10132055	January 28, 2013- January 27, 2023
37	倾心	PRC	36	10132029	December 21, 2012- December 20, 2022
38	唯尔财智	PRC	36	10132071	January 28, 2013- January 27, 2023
39	易资贷	PRC	36	11205419	December 7, 2013- December 6, 2023
40	海达	PRC	36	11174070	December 28, 2013- December 27, 2023
41	意隆	PRC	36	11246072	December 28, 2013- December 27, 2023
42	云帆	PRC	36	11088821	November 7, 2013- November 6, 2023
43	智融海岸线	PRC	36	10134386	February 14, 2013- February 13, 2023
44	智盈理财 把握未来	PRC	36	10132092	June 21, 2013- June 20, 2023
45	智专智融	PRC	36	10134373	February 14, 2013- February 13, 2023

No.	Trademark	Place of Registration	Application Class(es)	Application No.	Valid Period
46	海盈	PRC	36	11546483	June 14, 2014- June 13, 2024
47	海丽	PRC	36	11174091	April 28, 2014- April 27, 2024
48	金桥贷	PRC	36	9648088	May 21, 2014- May 20, 2024
49	财富小屋	PRC	36	13193913	January 21, 2015- January 20, 2025
50	财富之家	PRC	36	13194081	February 7, 2015- February 6, 2025
51	青岛银行财富小屋	PRC	36	13194007	February 7, 2015- February 6, 2025
52	E智精灵	PRC	28	13487191	February 7, 2015- February 6, 2025
53	青银智易贷	PRC	36	13933235	February 28, 2015- February 27, 2025
54	E智精灵	PRC	36	13487236	February 28, 2015- February 27, 2025
55	欧游	PRC	36	13468020	March 7, 2015- March 6, 2025
56	青银欧游	PRC	36	13468053	March 7, 2015- March 6, 2025

As at the Latest Practicable Date, we have duly applied to register the following logo and trademarks which are material in relation to our Bank's business:

No.	Trademark	Place of Registration	Application Class(es)	Application No.	Application Date
1.	BQD 青岛银行	Hong Kong	35, 36	303385242	April 24, 2015
2.	BQD 青岛银行	Hong Kong	35, 36	303385242	April 24, 2015
3.	BQD 青島銀行	Hong Kong	35, 36	303385242	April 24, 2015
4.	BQD 青島銀行	Hong Kong	35, 36	303385242	April 24, 2015
5.		Hong Kong	35, 36	303385251	April 24, 2015
6.		Hong Kong	35, 36	303385251	April 24, 2015

(b) Domain Names

As of June 30, 2015, we have registered the following material Internet domain names/general website.

No.	Domain Name	Place of Registration	Type	Owner	Valid Period
1	qdccb.cn	PRC	CN Domain Name	Our Bank	January 19, 2006-January 19, 2019
2	qdbankchina.com	PRC	International Domain Name	Our Bank	November 17, 2009-November 17, 2019
3	qdbankchina.net	PRC	International Domain Name	Our Bank	November 17, 2009-November 17, 2017
4	qdboffice.com	PRC	International Domain Name	Our Bank	March 2, 2010-March 1, 2020
5	qdccb.com	PRC	International Domain Name	Our Bank	January 27, 2003-January 27, 2019
6	青島銀行.公司	PRC	Domestic Domain Name	Our Bank	August 21, 2014-August 21, 2016
7	青島銀行.網絡	PRC	Domestic Domain Name	Our Bank	August 21, 2014-August 21, 2016
8	青島銀行股份有限公司.com	PRC	International Domain Name	Our Bank	April 19, 2012-April 19, 2016
9	青島銀行股份有限公司.net	PRC	International Domain Name	Our Bank	April 19, 2012-April 19, 2016
10	青島銀行	PRC	General Website	Our Bank	September 17, 2012-September 17, 2016

Save as disclosed herein, there are no other trademarks, patents or other intellectual or industrial property rights which are material to our business.

C. Our Depositors and Borrowers

Our five largest depositors and five largest borrowers accounted for less than 30% of the respective total deposits and loans and advances to customers as of the Latest Practicable Date.

3. FURTHER INFORMATION ABOUT OUR SUBSTANTIAL SHAREHOLDERS, DIRECTORS, MANAGEMENT AND STAFF

A. Substantial Shareholders

So far as the Directors are aware, immediately following the completion of the Global Offering, the following persons will have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at our general meetings.

Substantial shareholders' interests or short positions in our Shares or underlying Shares

			Immediately following the completion of the Global Offering (assuming no exercise of the Over-allotment Option)			Immediately following the completion of the Global Offering (assuming full exercise of the Over-allotment Option)		
Name of Shareholder	**Nature of Interest**	**Class**	**Number of Shares directly or indirectly held**	**Approximate % of interest in our Bank**	**Approximate % of the relevant class of Shares**	**Number of Shares directly or indirectly held**	**Approximate % in interest in our Bank**	**Approximate % of the relevant class of Shares**
Haier Group Corporation (海爾集團公司)	Interest of controlled corporation and other interests (Note 1)	Domestic Shares	812,214,572	20.25%	35.31%	812,214,572	19.59%	35.52%
Qingdao Haier Investment and Development Co., Ltd. (青島海爾投資發展有限公司)	Beneficial owner, interest of controlled corporation and other interests (Note 2)	Domestic Shares	812,214,572	20.25%	35.31%	812,214,572	19.59%	35.52%
Qingdao Haier Co., Ltd. (青島海爾股份有限公司)	Beneficial owner and interest of controlled corporation (Note 3)	Domestic Shares	384,344,485	9.58%	16.71%	384,344,485	9.27%	16.81%
Qingdao Haier Air-Conditioner Electronics Co., Ltd. (青島海爾空調電子有限公司)	Beneficial owner	Domestic Shares	218,692,010	5.45%	9.51%	218,692,010	5.27%	9.56%
ISP	Beneficial owner	H Shares	622,306,980	15.51%	36.37%	622,306,980	15.01%	33.46%
Qingdao Conson Development (Group) Co., Ltd. (青島國信發展(集團)有限責任公司)	Interest of controlled corporation (Note 4)	Domestic Shares	507,117,630	12.64%	22.04%	496,927,421	11.98%	21.73%
Qingdao Conson	Beneficial owner	Domestic Shares	507,117,630	12.64%	22.04%	496,927,421	11.98%	21.73%
Chan Mei Ching	Interest of controlled corporation (Note 5)	H Shares	200,000,000	4.99%	11.69%	200,000,000	4.82%	10.75%
Chan Min Chi	Interest of controlled corporation (Note 5)	H Shares	200,000,000	4.99%	11.69%	200,000,000	4.82%	10.75%
LRC. Strategic (Global) Investment Group Limited	Interest of controlled corporation (Note 5)	H Shares	200,000,000	4.99%	11.69%	200,000,000	4.82%	10.75%

Name of Shareholder	Nature of Interest	Class	Immediately following the completion of the Global Offering (assuming no exercise of the Over-allotment Option)			Immediately following the completion of the Global Offering (assuming full exercise of the Over-allotment Option)		
			Number of Shares directly or indirectly held	Approximate % of interest in our Bank	Approximate % of the relevant class of Shares	Number of Shares directly or indirectly held	Approximate % in interest in our Bank	Approximate % of the relevant class of Shares
LRC. Belt and Road Investment Limited	Beneficial Owner	H Shares	200,000,000	4.99%	11.69%	200,000,000	4.82%	10.75%
Jinan Binhe New District Constructive Investment Group (濟南濱河新區建設投資集團有限公司)	Beneficial Owner	H Shares	200,000,000	4.99%	11.69%	200,000,000	4.82%	10.75%
Ge Shoujiao (葛守蛟)	Interest of controlled corporation (Note 6)	Domestic Shares	152,170,000	3.79%	6.61%	152,170,000	3.67%	6.65%
Leng Qiyuan (冷啟媛)	Interest of controlled corporation (Note 6)	Domestic Shares	152,170,000	3.79%	6.61%	152,170,000	3.67%	6.65%
Shandong Sanliyuan Trading Co., Ltd. (山東三利源經貿有限公司)	Beneficial owner	Domestic Shares	152,170,000	3.79%	6.61%	152,170,000	3.67%	6.65%
Han Huiru (韓滙如)	Interest of controlled corporation (Note 7)	Domestic Shares	133,910,000	3.34%	5.82%	133,910,000	3.23%	5.86%
Wang Yunyun (王芸芸)	Interest of spouse (Note 7)	Domestic Shares	133,910,000	3.34%	5.82%	133,910,000	3.23%	5.86%
Qingdao East Steel Tower Stock Co., Ltd. (青島東方鐵塔股份有限公司)	Interest of controlled corporation (Note 7)	Domestic Shares	133,910,000	3.34%	5.82%	133,910,000	3.23%	5.86%
Qingdao Hairen Investment Co., Ltd. (青島海仁投資有限責任公司)	Beneficial owner	Domestic Shares	133,910,000	3.34%	5.82%	133,910,000	3.23%	5.86%
Ouyang Xinxiang (歐陽新香)	Interest of controlled corporation (Note 8)	H Shares	110,000,000	2.74%	6.43%	110,000,000	2.65%	5.92%
Keystone Group LTD.	Beneficial Owner	H Shares	110,000,000	2.74%	6.43%	110,000,000	2.65%	5.92%
Yan Lei (閆磊)	Interest of controlled corporation (Note 9)	H Shares	100,000,000	2.49%	5.84%	100,000,000	2.41%	5.38%
Yue Jingfeng (岳敬鋒)	Interest of controlled corporation (Note 9)	H Shares	100,000,000	2.49%	5.84%	100,000,000	2.41%	5.38%
Rizhao Huaheng Materials Trade Co., Ltd. (日照市華亨物資貿易有限公司)	Beneficial Owner	H Shares	100,000,000	2.49%	5.84%	100,000,000	2.41%	5.38%

Name of Shareholder	Nature of Interest	Class	Immediately following the completion of the Global Offering (assuming no exercise of the Over-allotment Option)			Immediately following the completion of the Global Offering (assuming full exercise of the Over-allotment Option)		
			Number of Shares directly or indirectly held	Approximate % of interest in our Bank	Approximate % of the relevant class of Shares	Number of Shares directly or indirectly held	Approximate % in interest in our Bank	Approximate % of the relevant class of Shares
Rothschild & Co SCA	Interest of controlled corporation (Note 10)	H Shares	98,830,000	2.46%	5.78%	98,830,000	2.38%	5.31%
Rothschilds	Beneficial owner	H Shares	98,830,000	2.46%	5.78%	98,830,000	2.38%	5.31%

(1) These 812,214,572 Shares are held directly or indirectly as to 384,344,485 Shares by Qingdao Haier Co., Ltd., directly as to 12,543,033 Shares by Qingdao Haier Tooling Development Co., Ltd., and directly or indirectly as to 415,327,054 Shares by Qingdao Haier Investment and Development Co., Ltd.. Haier Group Corporation holds 38.27% equity interest in Qingdao Haier Co., Ltd., 95% equity interest in Qingdao Haier Tooling Development Co., Ltd., and 84.47% equity interest in Qingdao Haier Investment and Development Co., Ltd.. In addition, Haier Group Corporation and Qingdao Haier Investment and Development Co., Ltd. are persons acting in concert. Therefore, Haier Group Corporation is deemed or taken to be interested in all our Shares held by the aforementioned companies for the purpose of the SFO.

(2) These 812,214,572 Shares are held as to 409,693,339 Shares by Qingdao Haier Investment and Development Co., Ltd., as to 5,633,715 Shares by Qingdao Haier Insurance Agency Co., Ltd. and indirectly as to 396,887,518 Shares by Haier Group Corporation. Qingdao Haier Investment and Development Co., Ltd. holds 100% equity interest in Qingdao Haier Insurance Agency Co., Ltd. In addition, Qingdao Haier Investment and Development Co., Ltd. and Haier Group Corporation are persons acting in concert. Therefore, Qingdao Haier Investment and Development Co., Ltd. is deemed or taken to be interested in all our Shares held by the aforementioned companies for the purpose of the SFO.

(3) These 384,344,485 Shares are held as to 139,663,690 Shares by Qingdao Haier Co., Ltd., 218,692,010 Shares by Qingdao Haier Air-Conditioner Electronics Co., Ltd., 17,246,671 Shares by Qingdao Haier Mold Co., Ltd., 5,957,940 Shares by Qingdao Haier Robot Co., Ltd., 1,856,116 Shares by Qingdao Haier Air-Conditioner Co., Ltd. and 928,058 Shares by Qingdao Haier Special Refrigerator Co., Ltd.. Qingdao Haier Co., Ltd. holds 100% equity interest in Qingdao Haier Air-Conditioner Electronics Co., Ltd., 100% equity interest in Qingdao Haier Mold Co., Ltd., 50% equity interest in Qingdao Haier Robot Co., Ltd., 99.9% equity interest in Qingdao Haier Air-Conditioner Co., Ltd. and 100% equity interest in Qingdao Haier Special Refrigerator Co., Ltd.. Therefore, Qingdao Haier Co., Ltd. is deemed or taken to be interested in all our Shares held by the aforementioned companies for the purpose of the SFO.

(4) Qingdao Conson is 100% owned by Qingdao Conson Development (Group) Co., Ltd.. Therefore, Qingdao Conson Development (Group) Co., Ltd. is deemed or taken to be interested in all our Shares held by Qingdao Conson for the purpose of the SFO.

(5) Chan Mei Ching and Chan Min Chi hold 47% and 51% equity interest in LRC. Strategic (Global) Investment Group Limited, respectively. LRC. Strategic (Global) Investment Group Limited holds 99% equity interest in LRC. Belt and Road Investment Limited, respectively. Therefore, each of Chan Mei Ching, Chan Min Chi and LRC. Strategic (Global) Investment Group Limited is deemed or taken to be interested in all our Shares held by LRC. Belt and Road Investment Limited for the purpose of the SFO.

(6) Ge Shoujiao and Leng Qiyuan hold 55% and 45% equity interest in Shandong Sanliyuan Trading Co., Ltd. respectively. Therefore, Ge Shoujiao and Leng Qiyuan are deemed or taken to be interested in all our Shares held by Shandong Sanliyuan Trading Co., Ltd. for the purpose of the SFO.

(7) Qingdao Hairen Investment Co., Ltd. is 100% owned by Qingdao East Steel Tower Stock Co., Ltd., which is in turn 52.45% owned by Han Huiru. Therefore, Qingdao East Steel Tower Stock Co., Ltd and Han Huiru are deemed or taken to be interested in all our Shares held by Qingdao Hairen Investment Co., Ltd. for the purpose of the SFO. Wang Yunyun is the spouse of Han Huiru. Therefore, Wang Yunyun is deemed or taken to be interested in all our Shares held by Han Huiru for the purpose of the SFO.

(8) Keystone Group LTD. is 100% owned by Ouyang Xinxiang. Therefore, Ouyang Xinxiang is deemed or taken to be interested in all our Shares held by Keystone Group LTD. for the purpose of the SFO.

(9) Yan Lei and Yue Jingfeng hold 60% and 40% equity interest in Rizhao Huaheng Materials Trade Co., Ltd., respectively. Therefore, each of Yan Lei and Yue Jingfeng is deemed or taken to be interested in all our Shares held by Rizhao Huaheng Materials Trade Co., Ltd. for the purpose of the SFO.

(10) Rothschilds is 98.40% owned by Rothschild & Co SCA as of March 31, 2015. Therefore, Rothschild & Co SCA is deemed or taken to be interested in all our Shares held by Rothschilds for the purpose of the SFO.

B. Disclosure of the Directors' and Supervisors' interests in our issued share capital or our associated corporations

Save as disclosed below, immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), none of our Directors, Supervisors and chief executive will have any interests or short positions in the shares, underlying shares or debentures of our Bank or any associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to us and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO), or any interests or short positions, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Listing Rules, which will be required to be notified to us and the Hong Kong Stock Exchange upon listing of our Shares, or any interests or short positions, pursuant to section 352 of the SFO, which will be required to be entered in the register referred to therein. For this purpose, the relevant provisions of the SFO shall be construed as if they are applicable to our supervisors.

Directors

Name of Director	Nature of Interest	Class	Number of Shares	Approximate percentage of interest in our Bank	Approximate percentage of the relevant class of Shares
Guo Shaoquan	Beneficial owner	Domestic Shares	500,000	0.012%	0.022%
Wang Lin	Beneficial owner	Domestic Shares	500,000	0.012%	0.022%
Yang Fengjiang	Beneficial owner	Domestic Shares	500,000	0.012%	0.022%

Supervisors

Name of Supervisor	Nature of Interest	Class	Number of Shares	Approximate percentage of interest in our Bank	Approximate percentage of the relevant class of Shares
Zou Junqiu	Beneficial owner	Domestic Shares	500,000	0.012%	0.022%
Sun Jigang	Beneficial owner	Domestic Shares	272,822	0.007%	0.012%
Xu Wansheng	Beneficial owner	Domestic Shares	196,021	0.005%	0.009%

C. Particulars of Service Contracts

Pursuant to Rules 19A.54 and 19A.55 of the Listing Rules, we have entered into a contract with each of our Directors and Supervisors in respect of, among other things, compliance with relevant laws and regulations, observation of the Articles of Association and provisions on arbitration. Save as disclosed above, we have not entered, and do not propose to enter, into any service contracts with any of our Directors or Supervisors in their respective capacities as Directors/Supervisors (other than contracts expiring or determinable by the employer within one year without payment of any compensation (other than statutory compensation)).

D. Directors' and Supervisors' Remuneration

The aggregate remuneration (including salaries, bonus, social security plans, housing fund and other allowances, benefits in kind and discretionary bonus) paid by our Bank to our Directors and Supervisors for the year ended December 31, 2014 was RMB9.993 million.

Pursuant to the currently effective arrangements, for the year ending December 31, 2015, it is estimated that the aggregate remuneration and benefits in kind to be received by the Directors and Supervisors would be approximately RMB10.000 million.

E. Personal Guarantees

No Director or Supervisor has provided personal guarantees for the benefit of the lenders in connection with any banking facilities granted to us.

F. Agency Fees or Commissions Paid or Payable

Save as disclosed in this prospectus, none of the Directors or any of the persons whose names are listed in "—4. Other information—E. Qualification of Experts" had received any commissions, discounts, agency fees, brokerages or other special terms from us in connection with the issuance or sale of any our capital within the two years preceding the date of this prospectus.

G. Disclaimers

Save as disclosed in this prospectus:

(a) none of the Directors, Supervisors or any party listed in "—4. Other information—E. Qualification of Experts" is:

   (i) interested in our promotion, or in any assets which have, within the two years immediately preceding the date of this prospectus, been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to our Bank;

   (ii) materially interested in any contract or arrangement subsisting as of the date of this prospectus which is significant to our business;

(b) save in connection with the Hong Kong Underwriting Agreement and the International Underwriting Agreement, none of the parties listed in "—4. Other information—E. Qualification of Experts":

   (i) is interested legally or beneficially in any of our Shares or our securities; or

   (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our Shares or any of our securities; and

(c) none of our Directors or Supervisors is a director or employee of a company which has an interest in our share capital that has to be disclosed pursuant to Divisions 2 and 3 of Part XV of the SFO after the listing of H Shares on the Hong Kong Stock Exchange.

4. OTHER INFORMATION

A. Estate Duty

Our Directors have been advised that currently there is no material liability for estate duty under PRC law that is likely to be imposed on us.

B. Litigation

Save as disclosed in "Business—Legal and Regulatory", our Bank is not involved in any litigation, arbitration or administrative proceedings of material importance and, so far as we are aware, no litigation, arbitration or administrative proceedings of material importance is pending or threatened against us as of the Latest Practicable Date.

C. Sponsors

The Joint Sponsors have made an application on our behalf to the Listing Committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in, our H Shares. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

Goldman Sachs (Asia) L.L.C., one of the Joint Sponsors, satisfies the independence criteria set out in Rule 3A.07 of the Listing Rules.

CITIC CLSA Capital Markets Limited, one of the Joint Sponsors, does not consider itself to be independent from our Bank according to Rule 3A.07 of the Listing Rules. CITIC CLSA Capital Markets Limited and its affiliates have current business relationships with our Bank which may be considered to affect CITIC CLSA Capital Markets Limited's independence for the purpose of Rule 3A.07 of the Listing Rules.

The Joint Sponsors will charge a total amount of US$1.0 million as the Sponsors' fee.

D. Preliminary Expenses

Our preliminary expenses are estimated to be approximately RMB2,953,600 and are borne by us.

E. Qualification of Experts

The qualifications of the experts (as defined under the Listing Rules and the Companies Ordinance) who have given opinions or advice in this prospectus are as follows.

Name	Qualification
Goldman Sachs (Asia) L.L.C.	a licensed corporation to conduct type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
CITIC CLSA Capital Markets Limited	a licensed corporation to conduct type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
King & Wood Mallesons	legal advisors on PRC law
KPMG	Certified public accountants

F. No Material Adverse Change

Our Directors confirm that there has been no material adverse change in our financial or trading position or prospect since June 30, 2015.

G. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

H. Miscellaneous

Save as disclosed in this prospectus:

(a) within the two years preceding the date of this prospectus, (i) we have not issued nor agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash, and (ii) no commissions, discounts, brokerage fee or other special terms have been granted in connection with the issue or sale of any shares of our Bank;

(b) no share or loan capital is under option or is agreed conditionally or unconditionally to be put under option;

(c) we have not issued nor agreed to issue any founder shares, management shares or deferred shares;

(d) none of our equity and debt securities is listed or dealt with on any other stock exchange nor is any listing or permission to deal being or proposed to be sought;

(e) there are no arrangements under which future dividends are waived or agreed to be waived;

(f) there are no procedures for the exercise of any right of pre-emption or transferability of subscription rights;

(g) there are no contracts for hire or hire purchase of any plant to or by us for a period of over one year which are substantial in relation to our business;

(h) there have been no interruptions in our business which may have or have had a significant effect on our financial position in the last 12 months;

(i) there are no restrictions affecting the remittance of profits or repatriation of capital by us into Hong Kong from overseas;

(j) we have no outstanding convertible debt securities; and

(k) we currently do not intend to apply for the status of a Sino-foreign investment joint stock limited company and do not expect to be subject to the Sino-foreign Joint Venture Law of the PRC.

I. Consents

Goldman Sachs (Asia) L.L.C. and CITIC CLSA Capital Markets Limited, as the Joint Sponsors; King & Wood Mallesons, as our legal advisors on PRC law; and KPMG, as our reporting accountants, have given and have not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports, letters, and/or opinions (as the case may be) and/or the references to their names included herein in the form and context in which they are respectively included.

J. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

K. Promoters

Our promoters comprised 296 corporate shareholders and 2,166 individual shareholders of the former 21 urban credit cooperatives and four new corporate shareholders. Please see "Our History and Development".

Save for the Global Offering and as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefits has been paid, allotted or given, or has been proposed to be paid, allotted or given, to any of the promoters above in connection with the Global Offering or the transactions described in this prospectus.

L. Financial advisor

Rothschild (Hong Kong) Limited has been appointed by us as our financial advisor in respect of the Global Offering. The appointment of Rothschild (Hong Kong) Limited was not made pursuant to the requirements of the Listing Rules, and is separate and distinct from the appointment of the Joint Sponsors (which is required to be made by us pursuant to the Listing Rules). The Joint Sponsors are responsible for fulfilling their duties as sponsors to our application for listing on the Hong Kong Stock Exchange, and the Joint Sponsors have not relied on any of the work performed by Rothschild (Hong Kong) Limited in fulfilling those duties. Rothschild (Hong Kong) Limited's role as our financial advisor in respect of the Global Offering is different from that of the Joint Sponsors in that it, among other things, focuses on providing general corporate finance advice to us on matters relating to the Listing and the Global Offering. Rothschild (Hong Kong) Limited is a corporation licensed under the SFO to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO.

M. Particulars of the Selling Shareholders

	Company's name	Location	Principal business
1	Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. (青島華通國有資本運營 (集團) 有限責任公司)	No. 8 Donghai Road, Shinan District, Qingdao	Investment and operation of modern manufacturing industries and modern service industries; holding of state-owned equity interests and capital administration; restructuring of state-owned assets and claims and liabilities
2	Qingdao Conson	No. 15 Donghaixi Road, Shinan District, Qingdao	Management and operation of state-owned capital and state-owned equity interests and the preservation and increase of the value of state-owned assets
3	Qingdao Enterprise Development & Investment Co., Ltd. (青島市企業發展投資有限公司)	No. 8 Donghai Road, Shinan District, Qingdao	Management and financing of the special funds designated by Qingdao People's Government; investment in foreign assets and management of assets

	Company's name	Location	Principal business
4	Guosen Securities Co., Ltd. (國信證券股份有限公司)	F16-26, Guosen Securities Building, No. 1012 Hongling Road Central, Luohu District, Shenzhen	Securities brokage; security investment consultancy; finance consultancy regarding securities dealing and investments; securities consignment and sponsorship; self-supporting securities; security asset management; margin trading and securities lending; investment securities portfolio investment and sell funds on commission; sale of financial protects on commission; providing recommendations for future markets; investment securities and fund custody; stock option market making
5	Qingdao Economic Development Investment Co., Ltd. (青島市經濟開發投資有限責任公司)	No. 2 Building, No.8 Donghai Road, Shinan District, Qingdao	Collection and disposal of non-performing assets of Qingdao Commercial Bank; replacement and management of the collected assets; operation of the economic development projects commissioned by the municipal government
6	Qingdao Development and Investment Co., Ltd. (青島開發投資有限公司)	No. 121A Macau Road, Shinan District, Qingdao	Undertaking the investment of large governmental construction projects; high-tech venture investment; holding of state-owned equity interests authorized by the municipal government
7	Etsong Tobacco (Group) Corporation Ltd. (頤中煙草(集團) 有限公司)	No. 20 Huayang Road, Shibei District, Qingdao	production and processing of cigarette materials; manufacturing supplementary materials for cigarette
8	Qingdao Hainuo Investment and Development Co., Ltd. (青島海諾投資發展有限公司)	Unit 909, No. 286 Ningxia Road, Shinan District, Qingdao	Investments in key projects such as those involving the city's infrastructures, transportation and logistics services, and port development and construction.
9	Qingdao Shibei District Venture Capital Co., Ltd. (青島市市北區創業投資有限公司)	Unit 901, No.18 Liaoyang West Road, Shibei District, Qingdao	Venture investment; acting on behalf of other venture investment companies or individual venture investment business; venture investment consultation; management business for start-up companies; participation in the establishment of venture investment companies and venture investment management consultation institutions
10	Shangdong Foreign Economic Trade Services Company (山東省對外經濟貿易服務公司)	No. 18 Baoding Road, Qingdao	Sales of hardware and electrical appliances, construction materials, general machinery, mechanical products (excluding small vehicles), knitwear and textiles; property leasing
11	Chengfa Investment Group Co., Ltd. (城發投 資集團有限公司)	7th Floor, Jianguo Building, No.519 Middle Changjiang Road, Economic & Technical Development Zone, Qingdao	Fund raising for district financial investment in infrastructural construction
12	Debt Service Centre of Finance Bureau in Shibei District, Qingdao (青島市市北區財政局債務服務中心)	No.80 Yanji Road, Shibei District, Qingdao, Shandong Province	Payment bonds and other negotiable securities

	Company's name	Location	Principal business
13	Qingdao Public Housing Construction and Investment Company Limited (青島公共住房建設投資有限公司)	No. 24A Qutangxia Road, Shinan District, Qingdao	Property development, construction and operation; primary development and planning for land; investment and operational management with its own capital
14	Labor Affair Centre in Shinan District, Qingdao (青島市市南區勞動事務代理中心)	No. 19 Xiaowang Road, Shinan District, Qingdao	Agency for labor contract, labor documentation, social labor insurance and other businesses within the scope of the labor department
15	Qingdao Chemical Research Institute (青島化工研究院)	No. 43 Siliu North Road, Licang District, Qingdao	Technological development, research and consultation service of chemical products; sales of chemical products
16	China Jianyin Investment Limited (中國建銀投資有限責任公司)	Floor 7-14, No. 2 Building, No. 1 Naoshikou Street, Xicheng District, Beijing	Assets management; investment management; corporate management; commercial property leasing; economic and trade consultation; investment consultation
17	Qingdao Huajin Dadi Clothing Company Limited (青島華金大地製衣有限公司)	No. 4 Shangqing Road, Shibei District, Qingdao	Manufacturing and processing of knitwear; wholesale and retail: mechanical equipment and textile machinery parts; mechanical equipment leasing
18	Top Eight Community Service Centers in Shinan District, Qingdao (青島市市南區八大關社區服務中心)	No. 32, Hong Kong Road West, Shinan District, Qingdao, Shandong Province	Implementing a combination of service charges, take paid, and unpaid approach, it provides convenient and advantageous services to the community and its residents.

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

Documents attached to the copy of this prospectus delivered to the registrar of Companies in Hong Kong for registration were:

(a) copies of the Application Forms;

(b) the written consents referred to in the paragraph entitled "5I" in Appendix VII to this prospectus;

(c) copies of each of the material contracts referred to in the paragraph entitled "2A" in Appendix VII to this prospectus; and

(d) the statement of particulars of the Selling Shareholders.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of KCS Hong Kong Limited at 36th Floor, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of the prospectus:

(a) our Articles of Association;

(b) the accountants' report from KPMG in respect of the historical financial information for each of the three years ended December 31, 2012, 2013 and 2014 and the six months ended June 30, 2015, the text of which is set forth in Appendix I to this prospectus;

(c) our unaudited supplementary financial information, the text of which is set forth in Appendix II to this prospectus;

(d) the report from KPMG in respect of our unaudited pro forma financial information, the text of which is set forth in Appendix III to this prospectus;

(e) the audited financial statements of our Bank for the years ended December 31, 2012, 2013 and 2014 and the six months ended June 30, 2015;

(f) the material contracts referred to in the paragraph entitled "2A" in Appendix VII to this prospectus;

(g) the written consents referred to in the paragraph entitled "5I" in Appendix VII to this prospectus;

(h) the service contracts referred to in the paragraph entitled "3C" in Appendix VII to this prospectus;

(i) the legal opinions issued by King & Wood Mallesons, our legal advisors as to PRC law, in respect of our general matters and property interests;

(j) copies of the following PRC law, together with unofficial English translations thereof:

    i. the PRC Company Law;

    ii. the PRC Securities Law;

    iii. the Special Regulations;

    iv. the Mandatory Provisions;

    v. the Provisional Regulations Concerning the Issue and Trading of Shares (April 22, 1993);

vi. the PRC Arbitration Law;

vii. the PRC Civil Procedure Law; and

viii. the PRC Commercial Banking Law.

BQD 青岛银行

Bank of Qingdao Co., Ltd.

青島銀行股份有限公司